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Illinois. Insurance Dept.

Report to
Gov. Edward F. Dunne...

[Springfield, Ill.]

[1914]

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REPORT

TO

GOVERNOR EDWARD F. DUNNE

ON

INVESTIGATION OF FIRE INSURANCE CONDITIONS AND RATES IN ILLINOIS.

Underwriters

302
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Box 132

By RUFUS M. POTTS
Insurance Superintendent

Sept. 19, 1914

STATE OF ILLINOIS

Insurance Department

Springfield

To His Excellency,

Edward F. Dunne, Governor, State of Illinois.

Sir: In my annual Fire Report, dated April 18, 1914, I stated (p. 12):

> "From the fact that I am now in the midst of an investigation into fire insurance conditions prevailing in this State, I am unable at this time to add my recommendations to this fire report, but, as soon as this investigation is completed, I will file with you a separate report, with proper recommendations."

I have continued this investigation and find that the fire insurance business is illegally and oppressively conducted in Illinois and its methods demand radical legislative reform.

The most objectionable feature disclosed is the usurpation by the stock fire insurance companies of powers, rights, and privileges not incident to their business and detrimental to the best interests of the people of this State. Such usurpation is accomplished by means of a nation-wide system of interlocking organizations, comprising all company officials from the president to the local agent, with controlling boards dominated by Eastern influence.

This immense system has established certain local "combines" in Illinois, for the purpose of fixing and maintaining exorbitant premium rates. Also about fifty of these "combine" companies operate "Annexes," some as many as eight, through which they issue so-called "underwriters" policies. These "Annexes" are illegal and fictitious entities, and are an effective aid in creating and continuing the fire insurance monopoly now existing in Illinois. Through the operation of these "Annexes," the great Eastern companies have absorbed practically all of the Illinois stock fire insurance companies. Under no circumstances should they be permitted.

An unfair, arbitrary and indefensible business policy is followed by the stock fire insurance companies in dealing with both the State and the public.

After a careful investigation of fire insurance conditions and wide research into the legal, technical and economic phases of this question, I have formed certain conclusions, and make herein constructive recommendations which will remedy the existing evils. I, therefore, beg leave to first call your atten-

tion to some underlying general principles upon which the fire insurance business rests; and then make a full presentation of the fire insurance business as it is carried on in Illinois.

MAGNITUDE AND NECESSITY OF FIRE INSURANCE.

Very few citizens of Illinois have any realization of the financial importance of the fire insurance business, nor of the amount of waste which annually occurs by fire. According to the official reports made to this Department, the total amount of premiums received by stock fire companies in Illinois for 1913 was $26,037,910. According to the Spectator's "Insurance Year Book" for 1914, a standard insurance publication, the total income of all fire insurance companies doing business in the United States for the year 1913 amounted to $416,975,367.

To better realize the immensity of these sums and what this fire loss means, compare it with the governmental expense of the State of Illinois and of the United States. The total expense of the Illinois State Government for the period of two years, October 1, 1910, to September 30, 1912, was $25,882,578, or $12,941,293 annually, so that the fire tax in Illinois was over twice as heavy as the State tax. The total expense of the United States Government for the year 1912 was $654,553,963. Consequently we see that the people paid the fire insurance companies two-thirds as much as it cost to maintain the government of the United States. But in reality the total fire loss, direct and indirect, to the people of this country, exceeded the expenses of the United States Government. For, the total fire loss to the nation included this total income of the companies of $416,975,367, because if no fires occurred this sum would not have been spent, and there was also a great loss of uninsured property and property on which the insurance collected did not equal the total loss. Furthermore, in Illinois, in 1913, 387 lives were lost. The figures for the United States are not available for 1913, but, in 1907, 1,449 persons lost their lives and 5,654 were injured in fires. The mere monetary value of the lives lost and injuries sustained cannot be estimated. But this is not all. The expense of equipping and maintaining fire departments in cities and providing fire protection in individual buildings must also be added. The grand total I will not try to estimate, but it is a staggering amount. The report of the New York Insurance Commission (1910), says:

> "The fire loss of this country averages nearly two hundred fifty millions a year, and is increasing; this is about $30,000 an hour, or $500 a minute, year in and year out. To this must be added at least the same additional amount for the maintenance of fire departments, and nearly as much more for the experience of conducting the insurance business; altogether in the neighborhood of $750,000,000 a year of expenditures, because of destructive fires; that is, fires cost us directly and indirectly, each year, more than the value of the cotton crop, and not only that, but along with this economic loss goes a frightful and horrible loss of life."

Surely a matter of this importance is worthy our careful attention and study. When we give it this, some astonishing results are disclosed, such as the fact that the expense of collecting and disbursing the fire tax is about one-half; that the fire insurance business, as at present conducted, increases instead of diminishes the annual fire loss; and that, in reality, the fire companies do not dread fires, but are content to have them occur.

FIRE INSURANCE COMPULSORY.

Under modern commercial conditions, fire insurance is practically compulsory. This comes from the fact that most mercantile, manufacturing and other business is done on credit. Credit will not be extended to a merchant, manufacturer, or business man, unless his stock of goods, merchandise in transit, or articles in the process of manufacture are fully covered by insurance. Neither can loans be secured on real estate unless all buildings are fully insured. The insurance business is of direct personal interest to every citizen of the State of Illinois. The fire insurance tax falls, not only on property owners, but also on everyone who sleeps in a house or purchases goods in a store, for owners add the fire tax to the rental of their buildings and include it in the price of goods sold. These facts and conditions are not generally understood.

HISTORY OF FIRE INSURANCE.

After a short investigation into the history of fire insurance in the civilized world, I made an interesting discovery. Search in the historical portions of the numerous treatises on insurance, and copious periodical insurance literature published in the English language, failed to give any indication either of the history or the existence at the present time of State fire insurance in Europe. I find, however, that public fire insurance, either by the State, province, canton, city or commune, was the original and long the only form of fire

insurance in most European countries, and that this State insurance still flourishes vigorously in those countries, although mutual and stock company insurance are now found in all. This omission to mention State insurance, either historically or otherwise, cannot be merely accidental. It is the most striking and essential fact connected with fire insurance in Europe, other phases of which subject have received frequent mention in books and periodicals in the English language. In order to obtain any account of State fire insurance, I was obliged to go to books written in foreign languages. When I did this, I found a very complete treatment of the subject in the following books:

Assurance Contre L' Incendie, Service Public, En Allemagne, Alglave, (1901).

Les Assurances Contre L' Incendie Par L' Etat Ou Les Cantons, En Suisse & dans les Pays Scandinaves, Alglave, (1902).

L'Assurance Contre L' Incendie par la Province Ou La Ville, en Autriche-Hongrie & Russie, Alglave, (1904).

Das Deutsche Feuerversicherungswesen, Biederman, et al, (1913).

The only explanation that occurs to me of this extraordinary omission, which amounts to a veritable "conspiracy of silence", is that it might be embarrassing for the insurance companies and their advocates to have the facts known in relation to State fire insurance in Europe. It is already a matter of common knowledge among persons familiar with fire insurance matters, that the rates in European countries are exceedingly low compared with those in the United States, and it is probable they realized that it might be suspected that there was some connection between State insurance and these low rates of fire insurance. A brief study of the subject renders this surmise very probable, and I am sure that State insurance is the chief cause of the tremendous difference in rates, owing to several factors which I will detail later, after a few words about the history of fire insurance in general.

ANCIENT TIMES.

There is no trace of fire insurance in any of the ancient civilizations, either in Asia or Europe. It appears to be unknown even to the Romans, although among the latter there was an analogous form of maritime contract which, however, only amounted to a simple bet on the safe arrival of a ship.

Among the reasons given for the absence of insurance in

ancient times are these: That there were no reliable statistics by which charges for insurance could be computed, and that persons then engaged in commerce were usually very wealthy or very poor. For the first class a disaster would not destroy their entire resources, so that assurance was not indispensable to them. For the second class, the payment of a premium was practically impossible.

For the germs of fire insurance we go back only to the Middle Ages, where we find, in the ninth century in England, and later in other countries, organizations or associations of merchants and artisans. These had different names in different countries, but are usually grouped under the term of "Guilds." At first they were social and charitable in character, as well as for the promotion of the material interests of their members. Among the latter functions was the relieving of distress of members, caused by accident and other casualties, among which were losses by fire. Usually all the members paid an entrance fee, as well as periodical dues, which were preserved as a fund for these purposes. After the eleventh century the Guilds became more industrial and professional in character, and were succeeded in various Teutonic countries by Brandgilden, a sort of mutual fire insurance association, and these also existed in England long before the great London fire, but seem to have died out there.

GERMANY.

The Brandgilden were succeeded in Germany by public institutions, generally termed Feuersocietaten. The first institution of this kind was that of Hamburg, founded in 1677, followed by one in 1706, for Berlin. This was later divided, one part being for insuring city property, and the other for country property. During the eighteenth century, numerous similar public fire institutions were organized in all the provinces now comprised in the German Empire, and most are in existence today, although some have been subject to modification, usually by being united with other similar institutions.

There were in 1913, in operation, forty-nine public fire insurance institutions in the various parts of the present German Empire. A full and authoritative account of the organization and operation of these institutions is to be found in "Das Deutsche Feuerversicherungswesen," mentioned above. Some of these are restricted in their field of action to one city; some to a single province, and, excepting Prussia, there are institutions which extend over whole kingdoms. For a long

time fire insurance was a monopoly of the State institutions, at least as regards real property, but since 1861 this monopoly has been largely withdrawn and the State institutions have to compete with private companies. In Germany, also, there has been an extensive development of mutual insurance, so that these three types are all in operation in Germany.

AUSTRIA-HUNGARY.

Fire insurance history in Austria-Hungary is similar to that of Germany. We find State institutions, mutuals and stock companies. In Austria, also, fire insurance originated in small local associations, of which several have been in existence since 1710. Numerous other mutuals have since been organized and still operate. There are now four State institutions in Austria, and eight stock companies.

SWITZERLAND.

In Switzerland, fire insurance is of more recent origin. It began as a form of private insurance, but this was abandoned for public insurance by the Canton. This change of policy commenced in 1805 with the Canton of Argovie. In 1841 there were seventeen Cantonal institutions for insuring buildings, of which the larger part were compulsory. Many of the Cantons took up fire insurance in order to fight the combination of private societies, and, above all, of the foreign societies which exacted excessive rates. Later there were Cantonal institutions for insuring movable property. In 1897 there were eighteen Cantonal institutions for insuring buildings, and two for insuring movable property. There were, also, at that time, in Switzerland, five mutual societies and eighteen stock companies.

DENMARK.

In Denmark, at the end of the seventeenth century, there existed a law which obliged the commune to reconstruct, free of charge, buildings destroyed by fire. In 1714 there was founded in Seeland a free mutual society for insuring church structures and schools. This example was rapidly followed and mutuals were formed for the purpose of insuring middle-class houses and farms. The obligations of these mutuals, however, became burdensome, and in 1735 the government intervened and created an institution for compulsory insurance in the cities of the province, and, in 1761, an institution was founded which extended its action throughout the whole territory, except Copenhagen. For Copenhagen a communal

institution had been established in 1731, but with insurance optional; a great fire in 1795, however, caused insurance to be made obligatory, and a fixed sum was collected for fire prevention purposes. Prior to this time, fire insurance had been carried on by local associations known as Brandgilden, but a State institution for this purpose was organized in 1792. Since that time, in addition to the continued existence of local associations, we find mutuals for the insuring of movable property. In addition to the above public and mutual institutions, stock companies, also, at present conducted fire insurance in Denmark. In Iceland, in the thirteenth century, we find an institution under the name of "Repps" for insuring against loss of cattle, and by fire.

SWEDEN.

In Sweden, at the end of the seventeenth century, several small associations were in existence, which collected dues for the purpose of relieving against disasters by fire, storm and flood. These were succeeded by the formation of a multitude of small free societies, some extending only throughout one commune, and the others further. Those owners affiliated with one of these associations were exonerated from paying the regular public fire tax collected in each "Harad." The fire tax for insurance in "Harads" have ceased, being replaced by a public institution in Stockholm for insurance of real property, which exists today. Since 1829, there has been a special institution for insuring country buildings. Stock fire insurance also exists in Sweden, there being 5 companies in 1897.

NORWAY.

The development of insurance in Norway has been very similar to that in Sweden. In 1767 a State insurance institution, managed by the government, was created, which insured throughout the Kingdom. Insurance was at first obligatory for all real property. Christiania, which had possessed since 1752 a municipal fire insurance institution, was soon relieved of obligation to insure in the State institution. This lasted till 1827, since which time Christiania has also been insured in the State institution. Later the instituton was divided into two parts, one for town risks and the other for rural risks. Since 1883 several stock companies have been formed for insuring movable property, for maritime insurance, also forestry insurance.

RUSSIA.

In Russia the beginning of insurance is stated to have been in 1786, when an Imperial bank for making insurance was organized. Various other insurance plans have since been in operation. In June, 1864, an imperial manifesto established provincial institutions for fire insurance which were compulsory upon dwelling houses not already insured in private companies, but insurance was optional for other real property. These institutions were under the supervision of the governmental head of each province. These institutions now exist in most of the provinces. There are in operation also many mutual associations and several joint stock companies.

NEW ZEALAND.

The latest instance of the inauguration of a system of State fire insurance is in New Zealand, where a government institution for fire insurance was opened for business January 4, 1905. Although it began and has continued in operation against strong competition from mutuals and stock insurance companies, both domestic and foreign, it has been very successful, and, although this is a very small country, at the end of 1912 carried insurance to the amount of £13,519,742 sterling. Its annual premium income has been as follows:

> "1905, £13,132; 1906, £20,962; 1907, £23,195; 1908, £26,657; 1909, £33,281; 1910, £40,552; 1911, £47,745; 1912, £54,380."
>
> (New Zealand Year Book, 1913, p. 706.)

Out of these it has accumulated a reserve fund of £37,000 in government securities and other funds amounting to £48,000.

The interesting point is that, by reason of its establishment, the premium rates on mercantile risks have been reduced 10%, and on dwellings, offices, etc., 33 1-3%, and this reduction occurred not only in the premium rates of the State institution, but in the stock company rates, in order to meet State competition, so that there has been an immense saving to the people of New Zealand. It is said:

> "The fire insurance department has saved to the people in the first year of its operation more than half a million dollars in premiums."—(Government Insurance in New Zealand, Independent, Vol. 61, p. 86.)

The saving to the people has increased correspondingly in succeeding years and now doubtless aggregates millions of dollars. All this has been accomplished without a dollar of

expense to the taxpayer, all expenses having been paid out of the insurance business.

STATE INSURANCE OLD AND WELL TRIED.

This brief outline of the history and present condition of insurance in these important European countries shows that State fire insurance, instead of being a new and untried experiment, is the oldest form of insurance, and still benefits the people of these countries, or it would have been long ago discarded. This benefit comes not only from the low rates at which State insurance is effected, but also from the fact that it compels the stock companies to do their business at similar low rates in order to get business, instead of leaving them free to exact such rates as they please, as in the United States. Another benefit is that the fact that the State is engaged in the fire insurance business has caused the enactment of strict laws for the prevention of fires, the prohibition of overinsurance, and the punishment of criminal incendiaries, as well as those who cause fires by gross carelessness. It is to these factors mainly that the very much smaller fire waste in European countries is to be attributed, rather than the excuse alleged by the insurance companies,—the smaller use of wood in buildings. The increased risk from larger use of wood in construction is probably offset by the superior fire fighting facilities in American cities. The most important cause of the immensely lower fire insurance rates in Europe is the existence there of State fire insurance institutions.

ENGLAND.

In England the early local fire insurance associations seem to have disappeared without causing the inauguration of any form of State fire insurance, such as occurred in most European countries. In 1609, a project was brought out for insuring houses against fires in return for a fixed premium. It was vigorously discussed, but religious scruples prevented its adoption. Fire, said the opponents, is the work of God, like other scourges which afflict humanity; therefore, you cannot, without sin, put obstacles in the way of the Divine Will by suppressing, through the payment of an indemnity, the chastisement which is intended to be inflicted on certain persons. The project failed, whether for these reasons or others is not recorded.

In 1666 occurred the great fire of London which was relatively the most destructive in the world, over three-fourths of the buildings in the city being destroyed. This caused the

subject of fire insurance to be again taken up, and, in the absence of any form of local or mutual insurance, the form of insurance by stock companies was adopted, the first being organized in 1680. In 1681 an attempt was made to have fire insurance carried on by the municipality of London, but owing to different causes, among which was the vigorous hostility of the previous private company, the city abandoned the enterprise, and, thereafer, fire insurance in England, followed by the United States, has since been carried on solely by joint stock companies, and later by mutuals, without any state institutions whatever being created for this purpose. The course of insurance development in France was similar to that in England, and it is with the history of fire insurance in these countries alone that the historical sketches printed in English have solely busied themselves, as I have above noted.

UNITED STATES.

In the absence of State competition or regulation, the fire insurance business proved very profitable for corporations and a number were later organized for this purpose in England, and the United States. Here the first company was the Philadelphia Contributionship, organized in 1752, followed by a second in the same city, the Mutual Assurance, in 1786. The third was the Knickerbocker Fire of New York. By the close of the century, 22 had been formed, among which were 8 mutuals. The first American companies to establish what is known as the "agency system" were the Hartford and the Aetna, incorporated in Connecticut.

In no state was there at first any legal control or supervision over the business of fire insurance and it was conducted in such a manner that the companies frequently failed, particularly whenever a great fire occurred, resulting in great loss to insurers. Consequently, after the New York conflagration in 1835, various states began to enact laws designed to compel the companies to so conduct their business and maintain such assets as would afford reasonable security to insurers.

COMBINATION BEGINS.

Up to 1866, in the United States, free competition had been the universal rule, but in that year the companies formed the "National Board of Fire Underwriters," organized for the purpose of fixing and maintaining fire insurance rates. Later on, for various causes, this particular function of this organization was abandoned, although its existence is still continued

for other purposes. This, however, does not mean that companies abandoned their monopolistic practices and entered into free competition. The monopolistic features were simply relegated for more effective exercise to other organizations of smaller territorial jurisdiction. Those which affect Illinois at the present time are the Union, the Western Insurance Bureau, and the Chicago Board of Underwriters.

ILLINOIS.

Doubtless, fire insurance was effected in Illinois from an early date by the companies from other states or foreign nations, but originally there was no State supervision of any kind, and there is no record remaining of their activities. Prior to the year 1869, Illinois insurance companies each received charters by special acts of the legislature. The first company chartered was the Alton Marine and Fire, February 7, 1835, the office of which was at Lower Alton. This was followed by the Chicago Marine and Fire, January 13, 1836, the office of which was at Chicago. After this there were usually a number of companies which received charters at each legislature and, up to 1869, 197 stock companies and 47 mutual companies had received special charters. None of these stock fire insurance companies are in existence today, but of the mutuals 12 are still doing business, which shows that the mutual principle in this State has been more enduring than the stock plan.

The Chicago conflagration of 1871 is, of course, a landmark in insurance history in Illinois. It is stated that 335 American companies and six foreign companies suffered loss in this fire to an aggregate amount estimated at $88,634,122. (Chicago and The Great Conflagration, Colber & Chamberlain, 1871, p. 313.) But 57 of these companies failed, so that, according to the above authority, it was estimated that the insured would not receive more than thirty-five millions of insurance; this, however, was probably an overestimate. The report of the State Auditor for 1872 states that at that time $25,763,723.40 had been paid.

SUPERVISION BEGINS.

By acts of the legislature, approved March 11th and 26th, 1869, supervision of insurance companies doing business in the State was conferred upon the State Auditor. The first report of this office was issued December 15, 1869, which gives a list of all the insurance companies then doing business in the State, as well as a list of those domestic companies which had ceased

to do business prior to that time and of the foreign companies which had withdrawn from the State. Following this were successive acts of the legislature regulating fire insurance, which it is unnecessary to outline here. The legislature, June 20, 1893, established a separate Insurance Department to be under the control of an Insurance Superintendent, and it is under this act that the Department is now operated.

FIRE PREMIUM A TAX.

In the case of fire insurance as in all other political, social and industrial institutions which have had a long period of historical development, subsequent study has discovered and formulated certain underlying principles or truths according to which its development and evolution has occurred, although its historical development was not made by any formal or conscious application of such principles. Perhaps the most important of these general principles is that fire insurance is essentially a tax for the purpose of spreading the loss caused by fire to certain unfortunate individuals among the members of the whole community and so lessening the burden of each. This conclusion as to the fundamental nature of fire insurance rates is admitted by practically all authors who have gone into the theory of the business, including those writing from the standpoint of the companies and their interests, as well as authorities not directly connected with the business. For instance, Mr. A. F. Dean, Manager of the Western Department of the Springfield Fire and Marine Insurance Company, says:

> "Fire insurance rates are by their nature a tax." (State Regulation Fire Insurance in the Light of Experience, A. F. Dean, Chicago, 1909, p. 7.)

Another author:

> "Fire premiums are often described as in the nature of a tax, a fire insurance tax, which the various fire insurance companies are authorized to levy by virtue of the charters and licenses issued to them by the several States. This tax is paid by all property owners who carry fire insurance, and is simply a method of distributing the loss of one among a great many." (Business of Insurance, Dunham, Vol. 1, p. 60.)

And:

> "The insurance on a burned building does not bring back the property that was destroyed; it simply equalizes the loss between all others whose property is insured." (Bulletin 418, U. S. Geological Survey, p. 12.)

Fire insurance, then, being a tax, the next question which

demands our consideration is the agency through which this tax is collected and disbursed. Most other taxes are collected and disbursed by governmental authority, either national, state or municipal, but the insurance tax in the United States is not. Here the collection and disbursement of the immense sums of money which equals to two-thirds the entire income of the United States Government, is carried on mostly by private corporations, but to some extent by Mutuals, Inter-Insurers and Lloyds. These corporations and other organizations are simply institutions for the purpose of collecting and administering funds paid by the policy holders for indemnity against loss by fire. Dean says:

> "There can be no intelligent understanding of the questions involved which overlooks the fact that the aggregate premiums collected by all the companies each year in the United States constitute a general fund, from which all losses and expenses are disbursed, the remainder, if any, being the average profit of all the companies. This fund, in its collection and disbursement as a whole, constitutes the activity known as fire insurance." (State Regulation Fire Iusurance in the Light of Experience, A. F. Dean, Chicago, 1909, p. 7.)

This being so, the important question at once arises as to whether or not the present agencies are the best and most economical for this purpose, so that the burden of taxation will be equitably distributed and will be as light as possible.

PREMIUM RATES.

The most important thing about any tax is, first, the amount of it; and, second, how it is apportioned among those who must pay the same.

As noted above, I began early in 1914 to investigate this subject of the amount and apportionment of the fire insurance rates or tax in Illinois, and have already submitted to you a preliminary report, under date of May 6, 1914, on this subject. This report was preliminary in nature and not widely circulated, and I believe that a brief re-statement of some of the information therein contained is desirable, and will follow this with new tables showing that, according to her individual experience, Illinois is enitled to a substantial reduction.

The facts and figures given are entirely trustworthy, being taken from the schedules of rates published for and used by the companies themselves, fixing the premiums charged on properties in these states.

COMPARISON OF RATES IN CHICAGO AND OTHER LARGE WESTERN CITIES.

Annual Dwelling Rates.

CITY.	CLASS.	Brick, Metal Roof.	Brick, Shingle Roof.	Frame, Metal Roof, Detached, less than 25 ft.	Frame, Shingle Roof, Detached, less than 25 ft.
CHICAGO	1½	.27	.30	.675	.75
				Detached, less than 10 ft.	Detached, less than 10 ft.
Detroit	2	.20	.25	.30	.35
Cincinnati	1	.20	.25	.25	.30
Cleveland	1½	.20	.25	.25	.30
Milwaukee	1	.25	.25	.35	.40
St. Louis	1½	.15	.15	.35	.40
State.	Protected Cities Outside Principal Cities.				
Illinois		.30	.35	.35	.40
Ohio		.25	.30	.30	.35
Missouri		.20	.25	.30	.35

Comparison With New York.

An even more striking showing is made by a comparison with rates in force in New York City, as follows:

Dwellings.

	Brick Metal Roof	Contents	Frame	Contents
Chicago, 1 year	27	27	50-70	50-70
Chicago, 3 years	54	54	100-150	100-150
New York, 1 year	10	16	16	20
New York, 3 years	25	40	40	50

Flats.

	Brick Metal Roof	Contents	Frame	Contents
Chicago, 1 year	36	40	50-70	50-70
Chicago, 3 years	72	80	100-150	100-150
New York, 1 year	15	20	20	24
New York, 3 years.	37½	50	50	60

Private Stables and Outbuildings.

	Brick, Stone, Concrete, Etc.	Contents	Frame, Etc.	Contents
Chicago, 1 year	30	30	50-60	50-60
New York, 1 year	20	26	32	32

Practically every other building and property is separately rated by the Chicago Board of Underwriters so that direct comparisons are not easily made, but the above are typical examples of the exorbitant rates demanded from Chicago property owners.

Omitting Chicago, the average charge in the large Western

cities for the brick dwelling with standard roof is 20 cents annual. Placing Chicago on this basis would cause a reduction of about 25 per cent in the premiums on this class. Similarly, the average charge for the frame dwelling with shingle roof is 35 cents annual. Placing Chicago on this basis would cause a reduction of about 50 per cent in the premiums on this class.

The rates for Chicago flats are obtained by adding to the brick dwelling basis 10 cents for a three story flat, and 20 cents for a four story flat. If these differentials were retained in connection with the reduced 20 cents basis, there would be a reduction in the premiums on this class of about 22½ per cent.

THE DEAN SCHEDULE.

The Dean Schedule, named after its author, Mr. A. F. Dean, is a detailed classification purporting to make rates proportionate to the fire hazard involved, on mercantile establishments, factories, etc. The rates at present exacted from the owners of all buildings and contents of these classes in Illinois are fixed by this schedule, as applied by the "Illinois Inspection Bureau," which is described later. Dean Schedule rates vary according to the basis tables which are used. The schedule is constructed so that the rates produced with the 100 table are twice those produced with a 50 table.

Dean Schedule Basis Tables.

	BRICK.		FRAME.	
	Building	Contents	Building	Contents
Illinois, North	60	70	95	**100**
Illinois, South	70	70	95	**100**
Ohio, prior to 1914	50	70	90	**95**
Ohio, 1914	50	60	80	**80**
Wisconsin	50	70	90	**90**
Kansas	60	70	95	**95**
Indiana, Missouri and Michigan	60	70	95	**95**

I recently received reliable information concerning rates in eastern states from a well-informed insurance man, who formerly lived in Pennsylvania, and who recently made a trip east, during which he visited at his old home in Pennsylvania, and also New York and New Jersey. During this visit he said he compared notes frequently with local insurance agents in the smaller towns and country districts of these states, and found that the rates on dwellings were usually

about one-half of those in Illinois, and on other risks, while the difference was not so marked, still the rates were much below those on similar properties in Illinois.

It appears from this tabulation that Ohio and Wisconsin have the lowest rates, and Illinois, the highest. The selection of the general basis tables for a State is governed by two considerations, the existing level of rates when the schedule is first applied, and the level of the loss ratio for a long term of years. There is no reason for imposing the highest level of rates on Illinois, except the fact that there has been no legislation in this State to interfere with extortionate practices. The loss ratios for 33 years, to-wit.: 1880 to 1913, inclusive, are:

STATE.	Loss Ratio.
Illinois	50.5%
Indiana	52.2%
Michigan	52.3%
Missouri	59.0%
Ohio	52.1%
Wisconsin	50.4%

It thus appears that Illinois has been the most profitable State of the group for a period of 33 years, except Wisconsin. The volume of premiums in Illinois is equal to that of Michigan, Missouri, and Indiana, combined, and exceeds that of Wisconsin and Ohio, combined. Moreover, taxation is least in Illinois and there are no anti-compact, anti-co-insurance and valued policy laws such as prevail in the other states. According to insurance logic, by reason of this exemption from interference, the cost of operation should be the least in Illinois, and rates the lowest.

The following tabular comparison of rates was obtained by applying the basis tables, co-insurance credits and term conditions to an example given on page 97a, of the Dean Schedule.

Rates for Building and Contents.

Five Story and Basement, Brick, Wholesale Dry Goods.

	BUILDING.		CONTENTS
	1 Year.	5 Years.	1 Year.
Chicago, Central Dis., Class 1½	.66	2.64	1.305
Chicago, Outside Cent. Dis., Class 2	.70	2.80	1.25
Chicago, average	.68	2.72	1.28
Cleveland, Class 1	.47	1.41	.91
Ohio, Class 2	.525	1.57	.96
Wisconsin, Class 2	.525	1.57	1.01
St. Louis, Class 1½	.59	1.77	1.10
Danville, Ill., Class 2	.63	1.89	1.13

Showing Percentage Reductions of Dean Schedule Rates Necessary to Place Chicago on the Same Basis as the Cities Listed:

	5 yr. Building. Rate Reduces.	1 yr. Contents. Rate Reduces.
Chicago equal to Cleveland, Class 1	50%	30%
" " " Ohio, Class 2	44%	25%
" " " Wisconsin, Class 2	44%	21%
" " " St. Louis, Class 1½	35%	14%
" " " Danville, Ill., Class 2	30%	11%

These percentages apply to all rates made in Chicago by the Dean Schedule. At this date, the Dean Schedule has not been applied in Chicago to the outlying small risks, but the rates in force upon these risks are apparently on a line with those that would be fixed by the Dean Schedule.

The National Druggists' Fire Insurance Company reports that about two-thirds of its Illinois business is placed in Chicago, with very little in the down-town district. This company uniformly takes 25 per cent off the Board rate to fix its own rate. The experience in Illinois on the premiums thus reduced shows a loss ratio of only 40 per cent, which, assuming that 60 per cent is a profitable loss ratio, the original rates could be reduced 45 per cent and still leave a fair margin of profit.

The two Illinois companies which write small retailers and grocers throughout Illinois show loss ratios upon their total business since beginning of only 35 per cent. This indicates that there is a general practice of overcharging small dealers. While these specialized companies are supposed to select business and therefore to show a better loss ratio than the Board companies can obtain, it is still a fact that the rates upon this class can be reduced 25 per cent and show a profit for the average quality of business handled by the Board companies.

The Chicago rates established by the Dean Schedule were the climax of a series of increases, beginning with February, 1894. The admitted purpose of the Dean Schedule is to collect enough insurance premiums to pay the **losses, expenses** and a **profit.** To do so, this schedule makes varying rates on different properties, according to material, exposure, occupancy, construction and other factors, the aim being to make favorable allowance for conditions which tend to reduce fire losses and impose higher rates where conditions are unfavorable. This purpose is a good one, but injustices arise because these allowances and charges are not founded upon the only just and proper basis for making such differences; namely, the actual

experience as to fire losses in the various classes into which property is subdivided in this schedule.

> "Practically the only light that is thrown upon the hazards in fire insurance is that of experience, and furthermore the experience to be worth anything must not include one, but many similar cases." (Rep. N. Y. Com. 1910, p. 69.)
>
> "Fortunately there is one guide in this matter, the past; otherwise the problem would be quite hopeless." (Ib. p. 39.)

The allowances and penalties are merely the estimates or guesses of Mr. Dean as to the importance of these various factors. The fact that Mr. Dean is an experienced insurance man does not render his schedule perfect or even approximately so. His skill gives it some degree of excellence and makes his a schedule which accomplishes its main purpose,—the securing of a satisfactory income for the companies. But Mr. Dean does not know, nor does any one else, whether or not the rates imposed upon different properties correctly represent the relative fire hazards.

In addition to these inherent defects in the present schedule rating used in Illinois, there are possibilities of great injustices in its application to individual risks. A concrete example of this is furnished by the rating of a commercial building in a small Illinois city. The insurance on this was carried for many years by a prominent "Combine" company agency, but finally the owner gave the insurance to another agency. The first agency then in some way procured a representative of the Illinois Inspection Bureau to make a resurvey of the building. He did this and purported to discover some previously undetected defect and nearly doubled the rate; conditions in the meantime being absolutely unchanged. This was favoritism in its most pernicious form and is possible at all times under the present system of schedule rating. Another remarkable example of the inequitable result of the schedule occurred at Rock Island. A large wooden shed building was occupied as a lumber yeard, and, while so used, the rate was $1.00. The use of this shed was changed from a lumber yard to a storage room for iron car wheels, which, of course, are absolutely unburnable and cannot be injured by fire, but the Dean Schedule raised the rate on the building, as thus used, to $1.40.

ILLINOIS EXPERIENCE.

From the records of this Department, (made up from the sworn statements of the stock companies), I have compiled tables, covering the fire business in Illinois. These records are full and complete since the year 1869.

Experience for Twenty Years.

Years—Period	Premiums Rec'd	Losses Paid	Per Cent of Losses to Premiums (Loss Ratio)
1909-1913, 5 years...	$115,436,149	$ 58,424,018	50.6%
1904-1913, 10 years...	220,729,045	106,105,147	48. %
1899-1913, 15 years...	296,632,964	146,348,954	49.3%
1894-1913, 20 years...	356,749,351	179,374,010	50.3%

Taking the entire experience of stock companies on Illinois business from 1869 to 1913, inclusive (45 years), and including the Chicago conflagration (1871), the loss ratio is only 2% above that of the last twenty years, or the last five years. These figures reveal the fact that Illinois citizens have paid the companies approximately $2 in premiums for every $1 returned for fire losses, uniformly for over twenty years.

In making up the above table, it was necessary, on account of the arrangement of the reports, to compute the experience separately of the Illinois companies, companies of other states, and United States branches of foreign companies, and one result obtained which it is interesting to note is that Illinois companies, with less than ten per cent of the business of companies of other states, show as level a loss ratio. This is also true of the companies of foreign nations, doing business in Illinois, which transact about forty per cent of the business.

The loss ratios of all companies combined, for the respective five year periods of the past twenty years, are as follows:

Period	Loss Ratio
1894-1898	54.9%
1899-1903	53. %
1904-1908	45.2%
1909-1913	50.6%

The companies contend that a reasonable loss ratio on business in cities subject to conflagration hazard, is 55%, and on property not subject to this hazard, 60%. Therefore, even figuring on a basis that the companies regard as "satisfactory", Illinois is entitled to a substantial reduction in rates.

The companies, however, claim that because there has been a slight raise in the loss ratio when calculated on all the

insurance written in the State during the past five years, and a slight decrease in the average rate for the same period they should not, therefore, now be asked to reduce rates. This position might be well founded if the rates at the beginning of this period had been equitable or approximately so, but this is not true.

Furthermore, an examination of the details of fire insurance statistics during this period, 1909 to 1913 inclusive, shows that in the class containing dwelling houses, flats, etc., with their contents, which is the class comprising the largest number of risks, and is also the class in which there is practically no competition, the trend has been just the opposite; rates have remained practically stationary, while the loss ratio has declined, as shown in the following table taken from the companies' annual report to my Department.

Dwellings and Contents.

Year	Premiums Rec'd.	Rates per $100 Risks Written	Per Cent of Loss (Loss Ratio)
1909	$5,641,292	.95	46%
1910	6,059,113	1.01	43%
1911	6,265,195	.94	48%
1912	6,516,806	.95	48%
1913	6,604,524	.95	43%

The cause of the small increase of the loss ratio on the totals for all the property in the State, and the slight decline in the average rate on the same, is found in the risks in which there is competition from mutuals and inter-insurers, which has caused a lowering of rates in certain classes, and, of course, a corresponding raise in the loss ratio. This can only be imperfectly shown from existing statistics because these have not been subdivided into enough classes. A clear indication of this trend, however, is given by the statistics of the classes "Special Hazards" and "All Other Hazards," covering the same five years experience. "Special Hazards" and "All Other Hazards," are classes of business in which there is much competition between the stock companies, mutuals and inter-insurers, and it is noticeable that the average rates have declined, while the loss ratios have rapidly increased. The following tables show the statistics of " Special Hazards" and "All Other Hazards":

Special Hazards.

Year	Premiums Rec'd.	Rates per $100 Risks Written	Per Cent of Loss (Loss Ratio)
1909	$5,628,115	1.33	41%
1910	5,685,941	1.27	58%
1911	6,246,482	1.19	57%
1912	5,689,066	1.25	60%
1913	5,544,627	1.23	69%

All Other Hazards.

1909	$2,182,299	1.05	39%
1910	2,927,523	1.04	40%
1911	3,167,251	.99	44%
1912	3,617,707	.98	45%
1913	4,150,089	.83	57%

The class, "Specal Hazards," is composed of risks rated individually. The class, "All Other Hazards," comprises everything not included in dwellings, mercantile risks and special hazards. The trend of rates and loss ratios in each class shows clearly wherein the cause for the decrease in rate and raise in loss ratio lies, namely, competition.

A few months ago, when the present investigation was beginning, we find open admissions that Illinois rates are not entirely equitable. The Market World and Chronicle, an insurance journal of New York, in its June 13, 1914, issue, made the following statement:

> "At present the companies are compiling statistics to show the reasonableness of Illinois rates in general, aside from dwelling rates. They hope to satisfy the Administration that most of the rates are fair and that they are going to do the fair thing regarding dwelling rates, by applying the dwelling house schedule as soon as it is prepared. A committee from several of the big organizations has been working on this schedule for a number of months. **It is said it ought to be completed by now, but it is not.**"

It is noticeable that no defense is offered as a justification for present dwelling rates, and, since the promised reduction is not yet in force, it is evident that the companies had no intention of granting relief even on this class.

The same publication, in its May 16, 1914, issue, expressed this opinion:

> "Certain it is that the companies are in an untenable position as regards preferred rates."

Rough Notes, an insurance journal published at Indianapolis, on May 31, 1914, expressed the same opinion:

> "There is more or less uneasiness in local circles in Chicago as to whether the State Insurance Depart-

ment will not take some action that may lead to reduction in rates in the city. It is known that a large number of underwriters feel that preferred rates in Chicago can well be reduced, and that there is no defense for keeping the rates on this class higher in Chicago than anywhere else in the State."

Similar overcharges oppress the Insuring Public in other states and have received the attention of various insurance departments. As the result of an investigation which he has recently made, Commissioner of Insurance Herman L. Ekern, of Wisconsin, has arrived at conclusions which are well summarized in a recently issued abstract of his forthcoming report on this subject. Commissioner Ekern was chairman of the Committee on Rates of the National Convention of Insurance Commissioners and his profound study of the subject renders what he says of such importance that I attach the abstract hereto as an appendix and desire to call your special attention to the same, and particularly to his final recommendation,—

> "Laws for inquiry into and the regulation of fire insurance rates are absolutely necessary. This is one of the big problems in Wisconsin."

I could extend these comparisons of rates and discussion almost indefinitely, but do not believe this necessary or desirable, for I have given enough examples to show clearly that great inequalities and injustices are being inflicted on Illinois policyholders by exorbitant and discriminatory rates, fixed and maintained by the "Combines." In order to understand how these wrongs may be removed, we must consider briefly the correct principles of fire insurance rate-making.

RATE-MAKING.

The only just basis for rate-making is:

(1) To have a scientific and detailed classification made of all risks in the State, putting in the same class all those having approximately the same fire hazard.

(2) To collect all the experience possible as to fire losses on each of the different classes and on the basis of this fix a fair rate.

The classification and especially the rate should be subject to modification from time to time as the further accumulation of experience might indicate. This can only be done by the authority of the State. The individual insurance companies are absolutely helpless to carry out such an undertaking, even if they honestly desired so to do. Neither can it be

done by a "Combine" of the companies or through co-operative action of the companies because they have no authority to obtain information of the experience of all the companies upon which the rates must be based.

The State of Illinois is large enough to give trustworthy averages for the purpose of fixing insurance rates for practically all classes of property in the State. It might, however, be found desirable in the case of a few classes containing only a small number of risks to supplement Illinois experience by that of similar risks under similar conditions in other states. As a preliminary attempt in securing fire loss experience, I have prepared a set of questions to elicit such information on certain classes of Illinois property, each of which contain large numbers of risks. These, if correctly and honestly answered by the companies, will furnsh sufficient data for a preliminary schedule of rates and upon this a complete system can be worked out as further experience accumulates for application in a reformed method of fire insurance which I will describe later.

Illinois is so situated that we do not suffer from many extra hazards that increase fire losses in other states. We are outside of the earthquake zone, free from prevailing high winds, and forest fires, hence, by including other states with Illinois in arriving at insurance rates, the Illinois rates are influenced unfavorably. The People of Illinois can themselves work out a trustworthy system of insurance, which will not only protect them against monopolies, but procure fire insurance at much more reasonable rates.

In the annual reports filed by the companies all losses of every kind and character are lumped together and compared with the premium income from all classes of property to show the result of the year's experience. By this method the companies are able to conceal the classes on which rates are exorbitant; and the classes in which over-insurance is permitted, with its consequent result of enormous arson and careless fire losses. It also permits them to conceal the losses on classes on which temporary lower rates are made to drive out independent companies, which losses must be offset by excessive profits on other classes. If every class of business was rated according to its own past experience and had to be self-supporting in order to make the aggregate business profitable, the companies would of necessity immediately eliminate the bad risk.

FORMER POSITION OF COMPANIES AS TO "EXPERIENCE."

The proper basis for rate-making has long been the subject of discussion and agitation. In the past the companies have contended that rate-making was an occult thing, which could not be understood by anyone who had not been engaged in the business for a lifetime; "experience,"—that is, the records of losses, was no guide whatever in estimating future losses. This position was maintained because the companies desired to avoid the compilation of fire insurance statistics, and thus conceal the facts from the public. The selfishness and fallacy of this position has, however, been so clearly demonstrated in late years that the "Combine" has been forced to abandon it, and in the fall of 1912, as a result of pressure brought to bear by the National Convention of Insurance Commissioners, an "actuarial committee" of the "Combine" was appointed. At the April, 1914, meeting of the Insurance Commissioners in Chicago, the committee made a report in which it declared that past experience was no guide to future rate-making. This report was severely scored by certain Insurance Commissioners and the committee promised to pursue the subject further and make another report. Under date of September 9, 1914, this committee issued a report styled "A Standard Classification" of occupancy hazards and loss report forms for use in ascertaining fire cost.

COMPANIES AND CLASSIFICATION.

A very clear expression of the companies' position is contained in the following quotation from the October 15, 1914, issue of the Western Underwriter, an insurance journal, in discussing this "Standard Classification."

> "Doubtless much opposition will arise to an acknowledgment of the value of classification. Those who are contending against the move feel that Underwriters will be stultifying themselves and turning back the pendulum in yielding to the pressure that may be exercised by some States and Commissioners for classification.
>
> "These men argue that the companies should undertake to point out the fallacy of trying to use classified experience as a basis or guide in rate-making and converting the authorities to a true understanding."

From an examination of this report it does not appear to be made in good faith, but is a continuation of the "Combine's"

policy of concealment. For instance, under "non-hazardous," there are thirteen classes of buildings and contents, and among the largest classes included are:

1- 2—Barns, and stables, private (other than farms).
3- 4—Churches and chapels.
9-10—Dwellings, without barns (excluding classes 11-16, inclusive; these classes are "palatial dwellings," "summer or winter only, dwellings" and "farm dwellings").
15-16—Dwellings occupied for farming purposes.
17-18—Farm barns and other outbuildings occupied for farming purposes.

All kinds of buildings of these various classes are lumped together without regard to material or location, except that in a prefactory note "For complete designation of classes, there is to be added to the class number—

X for Fireproof.	U for Unprotected.
Y for Brick.	P for Protected.
Z for Frame.	S for Sprinklered."

A schedule based on such a classification and experience accumulated thereon would be unjust and inequitable. There is a great difference in the fire hazard of buildings having shingle roofs and buildings having slate, tile, metal or similar roofs. Assuming that, by "unprotected" and "protected," the distinction is made between buildings located in cities with fire departments and those where there are no fire departments, this distinction is wholly inadequate. The "Combine's" own Illinois Inspection Bureau, for rating purposes, classifies cities with respect to the fire protection into eight classes, and there certainly should be a distinction between the risk on a building in the city having such a fire department as that of Chicago, and that of a village with a hand fire hose cart.

The loss experience is accumulated for rate-making purposes, consequently, it should be accumulated for each class for which separate rates are made. A large part of the population of the State lives in cities and heavy taxes are paid for the maintenance of fire departments. These are effective and furnish great protection, particularly the cities of the first, second and third classes, and property owners therein are entitled to have the experience in these cities compiled separately and if, as is certainly the case, there is a difference in the fire loss, they are entitled to a corresponding reduction in rates as compensation for the taxation which they bear to support the fire departments.

Furthermore, this classification lumps together all dwellings,

from the dilapidated tenement shack to a mansion. It is unjust to compel the careful home-owners of the middle class to pay rates justified by the tenement fire hazard. The committee was very careful to provide that only "amounts written" and "losses" should be reported, and that nothing should be said about premiums collected. What reason could there be but a desire to conceal the loss ratio, which shows whether rates are excessive or not?

PROOF THAT REDUCTION IN RATES IS POSSIBLE.

Some indication of the reductions which are possible in insurance cost is afforded by the well conducted mutuals and inter-insurers. In these co-operative organizations every care is taken to effect insurance only on the property of careful and honest owners. Provision is also made by frequent inspection, and otherwise, to see that the insured property is kept in such condition as to reduce the fire hazard to the minimum. Usually a sprinkler system is required. By such means the cost of insurance has been reduced to one-fourth to one-eighth, and even one-tenth of the stock company rates.

Another proof of the reduction possible in insurance rates is afforded by foreign countries.

FIRE INSURANCE PREMIUM RATES IN EUROPE.

Germany.

When we come to examine into the fire insurance premium rates in European countries, we find them extraordinarily low. According to the absolutely reliable authority mentioned above, (Das Deutsche Feuerversicherungswesen, Biederman, et al, 1913, Vol. 2, p. 559), the average premium rate for the public, (state, provincial, city, etc.) insurance institutions throughout the entire German Empire for 1911 was 13.4 cents per $100.00, and for the period of five years (1907 to 1911, inclusive), the average rate was 12.9 cents per $100.00. This is approximately one-ninth of the average rate in the United States, which for these periods were 106.1 cents per $100.00, and 110.1 cents per $100.00, respectively, (Spectator Year Book, 1914, p. 420). In 1911, these German State insurance institutions returned, as losses paid to the premium payers, 84.3% of the amounts collected from them, and, at the same time, added to their reserve 2,292,113 marks. Consequently, the entire expense of administration was only 13%. For the five year period, 1907 to 1911, calculated in the same way, the

expense of administration was 13.7%. In the State insurance, the surplus belongs to the policyholders, but in the stock company insurance, the surplus belongs to the stockholders, and is entirely lost to the policyholders.

These are strikingly different figures from the average of about 45% expense and profit in American stock company insurance.

Switzerland.

In Switzerland, similarly low rates prevail. The latest year for which figures are available is 1899 (Assurance Contre L' Incendie, par L'Etat ou les Cantons, en Suisse & dans les Pays Scandinaves, Alglave, 1902, p. 363), in which the sum insured was 6,320,561,515 francs, and the premium receipts were 6,858,998 francs, so that the premium rate in American money would amount to 10.1 cents per $100.00. In the same year, 4,061,088 francs were returned to the policyholders for fire losses, so that the loss ratio was 59.2 per cent. The amount of the surplus for this year is not given, so that it is impossible to calculate what the expense percentage was in Switzerland for this year. For the year 1897, the premium rate calculated in American money was 11.5 cents per $100.00, and the loss ratio was 56.4%. For the same reason as in the previous year, it is impossible to get the actual expense percentage. For the United States, premium rates are not available for these years separately, but for the period 1891 to 1900, the average rate was 103.7 cents per $100.00. (Spectator Year Book, 1914, p. 420.)

Norway.

In Norway the average State insurance premium in the rural districts for the period of 1895 to 1897, inclusive, was 6.9 cents per $100.00. In the cities, 13.8 cents per $100.00. Taking both the city and country districts together, the average premium for this period was 11.7 cents per $100.00.

The rate average in the United States for period including these years was 103.7 cents per $100.00.

FIRE PREVENTION METHODS NOT IN GOOD FAITH FAVORED BY COMPANIES.

The "Combine" companies are reluctant to inform a property owner of the reduction in rates to which he might be entitled by the installation of sprinkler systems or other fire preventive devices, because the installation of such improvements would bring the buildings within classes which

are much sought after by high class mutuals and inter-insurers. So long as a risk is in hazardous classes the "Combine" has a monopoly, and, so long as the "Combine" can charge any rate it sees fit, it is not seriously interested in reducing the amount of losses.

A striking example of the result to be obtained by the dissemination of such knowedge is afforded in Texas, where the present State law requires that a detailed statement of all the different items, penalties, credits, etc., which go to make up the final insurance rate on any property, must be placed in the policy. This has given every insurer information concerning the unfavorable factors which cause his rate to be high, and, in very many cases, he has improved his property, and thus secured a rerating at lower figures. This has resulted in a great improvement in a large part of the insured property in the State, which not only benefits the property so improved, but also lessens the hazards to adjoining properties.

COERCION BY THE "COMBINE."

It has been the practice of the "Combine" whenever the question of State rate-making has been up, to threaten to withdraw from any state attempting such action. They actually put their threats into effect in Missouri and Kentucky, and so coerced, to some extent, the government of those States. This was done by the concerted action of the companies and shows the extent and power of the agreement existing between the members of the "Combine." The action in these States, however, had a two-fold purpose. The companies, fearing the effects of the anticipated decision of the Supreme Court of the United States in the Kansas rate case, decided to make examples of these states as a damper to agitation for relief in other states. This plan has been carried out faithfully and during the past year it has been almost impossible to find a single insurance periodical without some reference to the terrible examples of Kentucky and Missouri. These threats have already been made in relation to the movement in Illinois for an equalization and readjustment of insurance rates. In order that the selfish and illegitimate motives of the companies behind this agitation may be understood by the citizens of Illinois, it will be necessary to give a short account of the conduct of the companies in this connection.

TACTICS OF THE COMPANIES IN DEALING WITH THIS DEPARTMENT.

The fire insurance companies have made repeated claims that unfavorable commercial conditions, caused by the present European war, entitled them to immunity from prosecution for violating the anti-monopoly laws. Their position is founded on the allegation that fire insurance is the basis of commercial credit. If this is true, it is certainly time that some action be taken to see that commercial credit does not remain dependent upon the monopolistic "Combine." An unsigned circular was distributed at a recent meeting of the Illinois Association of Bankers in Chicago, making such charges. The circular was a verbatim copy of an article previously appearing in the Insurance Post of Chicago, an insurance journal, edited by T. R. Weddell, official publicity agent for the "Union" and "Western Insurance Bureau," the two "Combines" now attacked by an anti-trust suit. It is evident that the fire interests preferred to do their fighting in this manner, rather than by any direct and open statements. A brief resume of the proceedings taken is a complete answer to all such charges.

The investigation of fire insurance conditions in Illinois was begun in March of this year, and my preliminary report was filed with you on May 6th. On June 16th, we gave the companies a joint hearing, at which time they agreed to file their answer and state their position in regard to the demands made upon them in my report, within thirty days. This was long before commercial conditions were disturbed by the war, and the companies had ample time to dispose of the entire matter weeks before the outbreak of hostilities.

No answer was filed but, on July 29th, I gave written notice to the companies to file their long overdue answer by August 10th; on this date the companies sent a representative to you and pleaded for another extension, and they were granted this to August 20th. However, no answer was then filed or ever filed by the companies, nor did they assign any reason for their failure to do so. Because of this failure, I filed an anti-monopoly suit on August 27, 1914, against the "Combine" companies in accordance with my report of May 6, 1914, (p. 5), in which I said that, unless the organizations and methods of the companies were reformed "in such a manner as not to be in violation of our laws, proceedings should at once be brought against them." The companies' claim is false that this

anti-monopoly suit is an unfair prosecution, coming without warning when business conditions were disturbed by the war. After the commencement of this suit, however, the "Combine" companies continued their dilatory tactics, and on November 5th they sent their representative to Your Excellency with a proposal that, if if I should agree, as complainant in said suits, to a postponement of the argument on the pending demurrer therein from November 7th to December 5th, the companies would file with you an answer to my said report of May 6th, within one week from that date, and that representatives of the companies would meet at your office on November 16th, 1914, for the purpose of conferring with us in reference to the allegations in my said preliminary report, and also with regard to proposed legislation in relation to the regulation of fire insurance rates and other fire insurance matters in Illinois.

After waiting until the representative of said companies had received, as he claimed, explicit ratification of his proposal from his principals, he returned to you and on November 6, 1914, said agreement was completed, and according to your directions, the postponement of the argument of said demurrer entered by agreement in the records of the court. Nevertheless, neither did the companies file their answer as promised, nor did they or their representatives appear on November 16th at your office for said conference, nor was any excuse or explanation given for not doing so. I next, on November 19, 1914, filed in court a motion, supported by an affidavit, setting forth the facts outlined above, to set aside the postponement of argument on demurrer. The course of the companies in this connection is unpardonable and a plain effort to avoid an issue upon the charge that they have been exacting unreasonably high rates agreed upon in their "Combine." The insurance companies complain of my investigation and say that I should not present these matters to the courts and to the Public. If I am not right in my version, I ask the judgment of the courts and the Public against me, and, if I am right, I ask that both sustain me.

UNDERWRITER ANNEX LITIGATION.

The entire lack of good faith, upon the part of the companies in their resistance of the efforts of public officials to enforce the laws, is also shown by their conduct in the present "underwriters agency" litigation now pending in the United States Court of the Southern Illinois District.

In April, 1914, a written complaint was presented to me in regard to companies maintaining "annexes" which issue "underwriters" policies. This is a plan which had grown up largely within the past ten years, by which risks were insured by unincorporated concerns called "underwriters agencies," but the policy was issued over the name of some regularly licensed insurance company. After some examination of the subject and appreciating the importance of the issue, I gave notice of a public hearing, to be held on June 1st, and invited all parties interested to be present. At this hearing the companies participating in this practice were represented by counsel, and some of the most prominent of the proprietors of "underwriters agencies," and also representatives of the local agents of Illinois. Immediately after this hearing, representatives of the "Underwriters" companies, after a conference in Chicago, at once sent 54 special agents throughout the State, dividing the State into 17 districts. These special agents called upon every local insurance agent and urgently solicited him to write a letter to the Insurance Superintendent, protesting against any ruling contrary to the "underwriter" policy scheme. They furnished such agents as they could induce to use them, letters already written to be copied upon the agents' own stationery. In this way they attempted to make it appear that the agents were strongly opposed to any ruling against "underwriters agencies", when, in fact, the local agents as a body were and are opposed to the "underwriters" policy scheme. This is shown by the subsequent action of the National Association of Local Insurance Agents at Minneapolis, August 17, 1914, which passed a resolution commending my ruling, as did also the State Association of Local Insurance Agents at their annual meeting in Springfield, September, 1914.

After the hearing I took the matter under consideration and, on June 16th, made a ruling which contained a full outline of the considerations which led me to decide against the practice of issuing the so-called "underwriters" policies. This ruling was printed and sent to all fire companies licensed in this State. In a letter, which accompanied the ruling, I allowed the companies until July 10th to indicate whether or not they were willing to comply therewith. The nature of the action contemplated was clearly indicated in the ruling itself in which I said: "I shall direct that proper proceedings be instituted in the Courts of this State against all companies

issuing such policies, to compel them to conform with the laws of this State." This course was adopted by me with a sincere desire to settle the "underwriter" question without any disturbance to the business.

This considerate action should have been appreciated and reciprocated by the companies. Instead, however, the "underwriter" companies hastily combined, concocted a sworn bill containing absolutely false allegations, and rushed with it into the United States Courts before July 10th to prevent me from enforcing my ruling. These companies, by thus forcing the controversy into the United States Courts, said plainer than words that they have no faith in the State Courts of Illinois. Insurance companies of other States do business in Illinois by permission only. They are business guests of our commonwealth. No greater affront could be offered the State of Illinois than this action for an injunction against a State official to prevent the enforcement of a State law by a State court. Their conduct is a contemptuous violation of the spirit of the statutes which imperatively require the Insurance Superintendent to immediately revoke the license of any foreign company which removes a suit brought against it from a State Court to a Federal Court, and, also, an example of the tactics of this monopoly when confronted with regulation in any form.

INSURANCE JOURNALS.

The numerous insurance journals well scattered over the country valiantly uphold the companies in every fight against reform. These trade papers secure their income almost entirely from company advertising and derive their ideas from the source of their income. They are widely distributed among insurance agents, and their editors are past masters at manipulating facts and figures in the interest of the companies.

A quotation or two from these publications will show the very evident use that is made of them by the "Combine." The Insurance Post, of Chicago, Ill., an insurance journal edited by T. R. Weddell, official publicity manager of the Western Insurance Bureau, and the Union, in the August 1st, 1914, issue, in discussing the investigation being made, makes this threat:

> "In connection with the activities of Insurance Commissioner Potts, of Illinois, in the matters of rates, annexes, etc., the fact is recalled that Mr. Potts has not yet been confirmed in his position by the Senate. He is an **interim appointee**, and in case of a political upheaval, such as is quite probable in Illinois this winter, it is possible that he may fail of confirmation when his name is submitted to the Senate under the laws, when that body meets. In the meantime the disposition of the insurance men is to let Mr. Potts alone, so long as he lets them alone, but to serve notice on him that every move he undertakes which is not justified by law will be fought to a finish. This includes his demand for a reduction in rates, which is held not to be a matter within his authority."

Within a week (issue of August 6th), The United States Review, another insurance journal, published in Philadelphia, made the same threat of the political intentions of the fire interests:

> "It is said, notwithstanding that he (Potts), has held his present office for some time, that he has not yet been confirmed in his position by the Illinois Senate; also that he is an **interim appointee**, and that in the event of a political upheaval in the State during the coming winter, which is thought to be highly probable, he may fail of confirmation when the Legislature then meets. Presumably he is not much concerned about such a possibility, and at the same time imagines that he is strong enough to face all the music that may come along regarding any or all of his official acts, but, nevertheless, some of his good friends should quietly admonish him that in assailing the fire insurance interests of his State, as he has been doing, he is making a mistake, and is not unlikely to find himself in a good deal of trouble ere long, politically, officially and personally, in consequence."

The following quotation, approving a speech made by an Insurance Commissioner of another State, shows that the fire companies do not want Insurance Commissioners to favor investigations:

> "He did not attempt to stir up any new species of investigation which might possibly embarrass some branches of the insurance business." (Insurance Advocate, New York, September 26, 1914.)

This extract from the Insurance Post, of Chicago, June 2, 1914, shows clearly the desire of the companies that all knowledge of evils should be kept secret:

> "In April, O. B. Ryon, general counsel for the National Board of Fire Underwriters, addressing the Fire Insurance Club of Chicago, said: 'Don't take your grievances to the insurance department unless they are of a general character. Remember, while you are getting your little complaint fixed you may be 'fixing' the

whole fraternity. Mr. Ryon usually knows what he is talking about, but he possibly did not know how very appropriate that advice was just at the moment. About that very time certain Chicago agents were asking the Illinois Department to correct grievances and they seem to have started something which they connot stop."

Little confidence can be placed in the articles of the insurance journals, their function being more to suppress facts than to give publicity to any evils in the business.

The attitude, however. of the general press, when free from insurance influence, is just the contrary. This is well shown by the following editorial from the Illinois State Register of July 27, 1914, which, in the course of the discussion of a particular incident, states clearly the improper control over the insurance press by the companies:

NEWSPAPER AND TRADE JOURNALS.

The relative value of insurance trade journals and the daily papers as a medium of conveying news to the public is strikingly shown by a comparison of the editorial comments of a foremost representative of each class on the report of Insurance Superintendent Rufus M. Potts, covering his investigation of the stock and bond holdings of eastern fire insurance companies in the New Haven railroad. The report showed that these companies hold over $7,000,000 in this worthless paper.

The Chicago Herald commends Mr. Potts, and points out that the public is vitally interested in such matters and should be kept informed. The sentiment of the editorial is expressed in the following:

"And now comes this statement from the state's commissioner of insurance to show that this situation which we have been regarding with calmness, as alien to our interests, affects to a certain extent everybody who takes out a fire insurance policy in Illinois."

On the other hand, the Insurance Field of Louisville, Ky., a leading insurance journal, severely criticises Judge Potts for making such a discovery public, the editorial declaring that:

"The companies holding these securities are probably as a rule able to charge off their losses. * * * There are insurance authorities much nearer than Judge Potts to the insurance companies and their railway investments who can be depended upon to give the most conscientious attention to the financial affairs of the companies as they may affect the public. * * * If there is any particular company endangered by too much New Haven diet, Judge Potts might take quiet steps, but to attempt to 'bawl out' forty-three

big companies on a blanket criticism that probably will not vitally affect any of them is a grave error."

This contrast simply reflects the fact that articles in insurance journals are not news items, but are published for the sole purpose of protecting the trade, and the public dealing with these interests cannot with safety rely upon such organs. The covering up of this discovery would probably have brought fulsome praise from this very journal for the insurance superintendent, and the insuring public of the State of Illinois would have been none the wiser. However, during his administration in the insurance department, Superintendent Potts has taken the stand that where a company or class of companies violate the law, refuse to conduct their business legitimately, or endanger the safety of their policyholders through questionable speculations, the public is entitled to have all available inforamtion as their protection against further victimizing.

Under all theories of insurance, the money invested by the companies in New Haven stock does not belong to the companies; it is the accumulation of the premiums of the policyholders set aside and held in trust to pay their future losses, and when it is wasted and devastated the trade journals declare that the facts should not be made public. It is difficult to see what this insurance journal has in mind when it insists that such discoveries as made public by the Illinois Department, which everybody must admit is of vital importance to every policyholder for whose protection it exists, should be kept secret.

The Insurance Field charges that such actions cannot help Judge Potts in his clean-up campaign, "but only help to cast suspicion on the business." It would seem far better for such a paper to lend its support and editorial energies to a movement which will clean up the business and raise its plane to a point where it need fear neither adverse publicity nor investigation.

CHARGE OF "POLITICS."

It is always maintained by the companies, with hypocritical assumption of martyrdom on their part, that they must ever bear the brunt of attack from self-seeking public officials. They express in pathetic terms a yearning to protect the People from loss by fire, but claim that the foolishness of some public servants is liable to deprive the people of this great charity. It may be true that politicians have in the past secured lucrative livings for some men at the expense of the companies, but this is because the companies fully realize that on account of their

violations of law they are at all times open to successful attack. Open, vigorous prosecutions in courts of law are not methods adopted by the beneficiaries of monopolies' corrupt generosity.

I am not restraining insurance, but restraining monopoly; I am not fighting stock fire insurance companies, but am preserving the rights of the people of the State of Illinois; I am not stifling business, but am trying to preserve an open market in the fire insurance business in this State, as President Wilson is doing in other lines of industry in the nation. In bringing the anti-trust suits, my aim is to make insurance an open and competitive field, and to effectually prevent, for all time, the creation and maintenance of such insurance trusts or combines as exist today. These companies do not undertake to offer any legal substitute for the evil practices that now exist; they will not willingly permit others to correct these evils.

The truth is that the all-powerful fire insurance trust has been in control so long, their fortifications are so well established through the insurance press, that they feel they can resist the demands for reform by all State governments, and hence will make no concessions, but seek immunity on the bluff that they will leave the State in case we seek to regulate or control them. The subjoined are recent examples of such threats repeatedly made following the efforts of this department to secure relief.

> "Several important fire insurance companies have announced their disposition to stop writing insurance in Chicago or in Illinois if the Insurance Department should be able to enforce its demands for a reduction in rates." (The Insurance Press, September 8, 1914, p. 7.)
>
> "It is almost unbelievable that the courts of Illinois will approve the attitude of Potts; but, in the event that they do, we should expect to see withdrawals of self-respecting companies from the State." (The Surveyor, September 11, 1914, p. 27.)

Even if the "Combine" companies should put these arrogant threats into execution, and by concerted action quit Illinois, while it might cause some temporary inconvenience, it would, in my opinion, ultimately benefit Illinois property owners. It would afford an opportunity to at once create and put into operation a system of State fire insurance. This might be a somewhat difficult task if the insurance companies were fully occupying the field, but if the "Combine" companies, by concerted action, abandon the State for the purpose of coercing the State government into permitting the anti-monopoly statutes and common law of the State to be contemptuously violated, these obstacles will no longer exist and State fire insurance can be easily and advantageously put into successful operation. In this connection, I believe a brief presentation of the advantages of State fire insurance will be of interest.

STATE INSURANCE.

In the first place, State fire insurance will afford infinitely better security to property owners than all of the "Combine" companies and their assets, even if all were united in one gigantic insurance corporation. Equally important, the fire premiums could be reduced to one-half of the present "Combine" rates or less. The claim is not extravagant. As shown above, the rates under State insurance in European countries are only **one-ninth** of the rates here. While we would not hope to be able to make such low rates immediately, they would be approximated in a reasonable time, and great immediate reductions would be possible. In my judgment, one-half of the present charge would be an adequate rate under State fire insurance because, in round numbers, only one-half of the premiums collected is claimed by the fire insurance companies to be actually paid for losses; the remainder, they say, is all used for profits and expenses. As we have seen, all authorities who have written on the theory of fire insurance agree that such insurance is, in essence, a tax by which the fire losses are distributed throughout the whole of the community, instead of falling wholly upon the unfortunate individual whose property is burned.

Now, it is exorbitant to absorb 50 per cent of a tax in its collection and disbursement. Under European State insurance less than 15 per cent is required for expenses, and no profit whatever is made. With the expense reduced to less than 15 per cent, instead of 50 per cent, the cost of insurance to the property owner would be cut down nearly one-half. The remainder can be rapidly reduced by preventing over-insurance, by compelling the repair and improvement of "fire traps" and "fire breeders," and by the stringent prosecution of the too frequent crime of arson.

That such a reduction is not an idle dream, but can be made an immediate reality if proper measures are taken, is proven by the recent extraordinary reduction of fire loss as shown by the ratio of loss to insurance in New York City. The reduction from the year 1912 to 1913 is exhibited by the follow-

ing tabular statement taken from the Spectator's "Year Book," 1914, page 505, which shows the number of dollars loss for each one hundred dollars of insurance in force on buildings and contents in which fires started:

Year	Insurance In Force	Loss Buildings	Loss Contents
1912	$100	$1.48	$17.77
1913	100	1.00	8.93

The amounts of insurance premiums are not given, so that the decrease cannot be shown in the form of percentage loss ratios as usually done elsewhere in this report, but this method gives a comparison for the different years of the proportion of losses to insurance similar to that afforded by percentage loss ratios.

This shows that in one year the fire loss on buildings was reduced to two-thirds, and on contents to one-half of what it had been the year before. This is an enormous difference, which means a decrease of millions of dollars in fire loss in the metropolis alone. No such sudden drop in the fire loss ratio ever occurred before. It did not happen at this time without cause. When the course of the fire insurance business in New York City for these years is investigated, it is not difficult to see what the main cause was which brought about this extraordinary and desirable reduction. Doubtless, part of the improvement was on account of improved building construction, better fire protection, installation of automatic sprinkler equipments and the installation of a high pressure water system. But these factors had been in operation for several years and only account for a general decline, and not for the sudden tremendous drop.

It will be remembered that, in 1912, there was a great upheaval in fire insurance circles in New York City and an exposure of the so-called "Arson Trust." The operations of the latter were made possible by collusion between corrupt local insurance agents and incendiary property owners. This became so notorious that insurance could be obtained for several hundred dollars on furniture, etc., in the tenement district, the actual value of which was only a few dollars. Of course fires happened and the corrupt agents paid the losses, receiving their "rake off." The same thing happened in relation to stocks of merchandise of all sizes. This condition became so bad that exposure followed, and these evils were largely corrected. This, in my judgment, is the explanation of this sudden drop. I wrote the "Combine" officials as to what interpretation they placed upon it, but they professed ignorance and proceeded to cast doubt upon the reliability of the figures given in the Spectator "Year Book," but would not furnish any others. In view of what I have heretofore stated, this is what might be expected of the "Combine." Although conditions in Illinois cities are not as bad as they were in New York in 1912, still, if arson was entirely eliminated, a similar, but smaller, drop would occur in the fire loss ratio of Chicago and other cities.

A similar sudden reduction took place in Texas, coincident with a change in Texas laws, which went into operation in 1913, and provided that rates be made by a State Commission and established other insurance reforms, such as proper credit for fire prevention devices. The Texas fire loss ratio in 1912 was 85.8%, in 1913, 55.7%, a reduction in one year of 30.1%. (Insurance Age, Sept., 1914, p. 203). No other reduction of like magnitude has occurred since the amount of insurance in that State became large enough to afford reliable averages.

The companies are wholly dependent for business on their numerous local agents. These receive a percentage commission on the premiums, so it is to the local agent's advantage to asquiesce in over-insurance, and see that every applicant is allowed insurance, whether his property is a fire trap or not. It is probable that many honest insurance agents do not allow these interests to control, but they exert steady pressure toward reckless insurance and high fire losses with consequent high premium rates, and in the aggregate have tremendous influence. The truth is, that instead of fires being diminished by insurance, they have been greatly increased, and, so long as the companies are able to collect rates which will pay all losses and a good profit, they are content. In fact, occasionally an insurance company officer has been found frank enough to admit that it was desirable that the fire loss was large, instead of small, provided they can fix the rates high enough to pay the losses, because they and their agents will get their percentage of profit and commission on a large, instead of small, premium.

For instance, the general manager of the Scottish Union and National Insurance Company, of Edinburgh, says:

> "Were there no fires there would be no insurance business; and, on the other hand, the greater the fire

damage, the greater the turnover out of which insurance companies make profit . * * * Speaking tonight as manager of a fire insurance company, I say we cannot make profits for our shareholders without fires, and, further, that within certain well-defined limits we welcome fires." (Quoted in Collier's, February 22, 1913.)

Edwin Milligan, vice-president of the Phoenix, of Hartford, in his testimony before the Illinois Insurance Commission, says:

"Speaking for the company, for the fire insurance companies, I should say that the reduction of the fire waste would not be a profitable thing. I think, Mr. Chairman, that as a business fire insurance is conducted by companies—like the one I represent—with most satisfaction and with larger profits in the years when fires are plenty; a good number of fires means a good premium account."

Henry Evans, president of the Continental of New York, testifying before the New York Insurance Commission (1910, p. 2890), says:

"I don't care anything about a $2,500,000 or a $3,000,000 fire. Just as soon have it as not. It would put so much business on my books, and put rates so high I would make it up."

A striking example explaining how insurance companies gain instead of lose by conflagrations, and why Mr. Henry Evans and other insurance presidents do not dread them, is given in a speech made by Colonel Edwin Romberg, of Chicago, before the Chicago Real Estate Board on November 5, 1914. He says:

"I had a peculiar experience last June here in Chicago, myself. My secretary called my attention to an insurance policy expiring on a factory building, owned by me, situate on Root street, near Halsted. As usual, I requested to know the amount of the insurance that we have, and told him that we would have to renew the policy and wanted to know the rate. He told me the rate would be a certain figure, plus 10%. When I asked what this 10% was for, he did not know, so I had him call up the Board of Underwriters to find out; and this is the information he received: That the extra charge of 10% was added to all mercantile risks in 1902, after the Baltimore fire; that the Underwriters of Cook county then decided upon a general increase of rate on all ordinary or special risks of 10% on buildings and 25% on contents, but that this rate would be eliminated by the Dean Schedule as soon as the district could be brought under that Schedule, which will be in about a year's time. In other words,

gentlemen, you have been raised **10% on building** and **25% on contents** on an **immense** amount of **insurance** on account of the **Baltimore fire** which took place **twelve years ago,** and they have never taken off this increase from the rates, and I dare say that you, as well as the rest of the People in this City, are not even aware of it."

This same spirit appears to control in the insurance business everywhere, although it is concealed as far as possible, and only becomes visible by reason of some special investigation or agitation. There has been much agitation in Kentucky, and the Chairman of the Kentucky State Insurance Board (Statement, etc., April 29, 1914) says:

"A very prolific cause of losses incurred in this State, as admitted by the companies, is due to over-insurance. To correct this evil, so far as possible, the State Insurance Board was given the right to inquire into the question of insurance upon property as to its value, thus, insofar as possible preventing fraud losses. The companies, however, because of their antipathy to State regulation, seriously objected to this, as well as all other provisions of the law. **They seemingly little care how great their losses may be so long as State supervision is prevented and the making of rates charged for insurance left entirely in their hands.**"

In the series of articles in Collier's Weekly, beginning February 8, 1913, satisfactory proof was given to support the following statement made therein:

"At the very lowest estimate incendiarism, either active or passive, is responsible for one-half of our fire loss * * * * When we calculate everything that our fires cost us, we may set our arson loss at one-quarter billion dollars a year. No lower estimate is possible."

The New York Insurance Commission report (1910, p. 119) says:

"Against that we have a certainty that the fire loss could be at least cut in two; that there could be not only a saving of one hundred million dollars a year in property now destroyed, but nearly as much more insurance expense, certainly hundreds, perhaps thousands of lives saved and a world of worry and suffering."

Commissioner Lewis, of Kansas, at the National Convention of Insurance Commissioners (proceedings, 1910, p. 68) says:

"The question of over-insurance is a subject that

> should receive the attention of this convention as much as any other thing that we have before us for consideration, in my opinion. I believe that if we could eliminate over-insurance that the rates in Kansas could be reduced 50 per cent, in my honest judgment."

This incendiarism can be eliminated almost entirely under a system of State insurance. Much good is now being done by the Illinois Fire Marshal, but present conditions prevent the full accomplishment of the purpose of that department. However, with State insurance, officials deal directly with, for and in behalf of the State, rather than with an insurance trust controlling the insurance business in Illinois.

The Hon. James R. Young, president of the National Convention of Insurance Commissioners, in his address at the annual meeting at Asheville, North Carolina, September 15, 1914, said:

> "Although the strenuous efforts to reduce the immense fire waste in this country is being continually and intelligently increased, the great loss of life and property grows unabated. It is nothing less than a crime and a reproach to us as a civilized nation."

"UNDERWRITERS LABORATORIES."

But some insurance advocate will say: "Does not the "Combine" maintain in Chicago an extensive underwriters laboratory for the purpose of testing fire preventing devices, etc.?" This may be true and still little benefit accrue to the public. Different motives control the different sub-divisions of the great fire insurance companies. Subordinate departments may be attempting to disseminate information to diminish fire losses while the men "higher up" are either wholly indifferent or, when their real sentiments can be obtained, openly hostile.

An objectionable phase of the operation of the "Underwriters Laboratories" has lately been called to my attention. The insurance interests have procured the making of requirements in some Illinois cities that the material in electrical installations and certain other appliances must be approved by the "Underwriters Laboratories." These laboratories charge a fee of from a minimum of fifty dollars up to hundreds for testing materials and devices which tends to prevent competition therein. By this means, some very clever monopolies have been built up.

DISTRIBUTION OF RISKS.

An important feature of safety in the fire insurance business is what is technically called a distribution of risks, that is, that insurance should cover a great number of risks so that there will be some approximation to uniformity in the number of fires that occur within a year. In the first place, the necessity for distribution would be much less important to State insurance than to corporation insurance, because the credit of the State is more able to stand sudden demands made upon it by irregular distribution of fire losses. The State of Illinois, however, is so large, the number of separate properties insured is so great, that State insurance covering all properties in Illinois would give a much better distribution of risks than is attained at the present time by the largest fire insurance companies, so that there could be no valid objection in Illinois to State fire insurance on account of lack of sufficient distribution. The companies have a distribution of territory rather than of risks, and it is the distribution of risks that counts.

CONFLAGRATION HAZARD.

The opponents of State fire insurance reserve, for their final argument, the "conflagration hazard." There is no question that, in the past, several large conflagrations have occurred in the United States, one being in the City of Chicago in 1871. But the possibility of conflagrations is no barrier to State fire insurance in Illinois. Another Chicago conflagration, such as that of 1871, is an impossibility, and the continuous parading of this argument by the insurance "Combine" shows the weakness of their position. At the time of that fire, a great majority of the buildings were of wooden construction in congested areas; 17,430 such buildings being burned. The fire department and its equipment were insignificant compared with the splendid equipment and efficient service of the present fire department. Fires will occur, but they cannot spread among brick and stone buildings of modern construction with modern fire protection. This is proven by the fact that fires are in most cases being confined to the buildings in which they originate, and always to a very small area. As fireproof buildings have multiplied and the efficiency of fire fighting devices and equipment increases, the conflagration danger has become negligible. A conflagration occurring 43 years ago is heralded by the insurance trust as a horror to be expected tomorrow, although every day in the City of Chicago fires occur

which might have proven disastrous years ago which are now easily controlled and soon extinguished. This fact is certainly proof of the ability of modern cities to prevent serious conflagrations. The conflagration hazards arise out of conditions which no longer exist in modern cities. The New York Insurance Report (1910, p. 121) says:

> "The conflagration hazard in New York City is mostly due to the thousands of old buildings built in the days when neither steam or electricity or gas were important features of the hazard. They are not adapted to modern conditions."

The loss of property covered by insurance in the Chicago fire was $91,000,000. The companies, however, only paid about $25,000,000, so the argument of "business safety" in case of conflagration is not well served by the example of the Chicago fire. However, conservative business judgment may require that provision be made to meet any possible conflagration hazard. This can be done as well by the State with the People's money as it can be done by the companies with the People's money. A small percentage set aside out of the premiums, the savings of a few years, will create a conflagration fund sufficient to meet any emergency. The San Francisco "conflagration" is frequently dwelt upon by the insurance press. This originated in an earthquake in which the upheaval alone destroyed much of the property, and the loss by fire was secondary. The defenders of the present "Combine" system cannot claim that Illinois is located in an earthquake zone in order to apply this disaster to Illinois conditions.

STANDARDIZATION.

The business of fire insurance must be standardized by creating a system which will reduce both expense of administration of the fire tax to the lowest possible figure and also act as a preventive instead of an encouragement to fires, and in this way produce the greatest benefit to the greatest number at the least expense. This cannot be accomplished with the business in charge of private corporations, whose sole aim is profit for the stock holders. The system by which they must operate is cumbersome, immensely expensive and wasteful, and, worst of all, increases instead of diminishes fire waste. Insurance by the State, if properly organized, can and will bring a thorough standardization of the business. Discriminations will cease because no lower rates could be obtained by "pull" or "influence"; with a prevention of overinsurance

and an inquest following each fire, incendiarism for profit would vanish. Building and other regulations for the prevention of fire could be enacted and enforced and with other reforms the full purpose of distributing the effects of lessened fire losses throughout the whole community could be accomplished at minimum expense.

Fire insurance is of all businesses the one which can be taken over and operated by the State without inflicting any injustice on capital engaged therein or creating any financial disturbance. The capital of the insurance companies remains intact and can be taken by the stock holders and placed without loss in other enterprises. Stock holders will also have, in addition, immense surpluses which many times exceed their stock investments to be divided among them. The insurance companies have absolutely no fixed investment, the value of which will be destroyed if the State takes over their business, such as would happen in other lines of industry. Their only property which would be rendered useless is stationery, the value of which is insignificant. The only persons whose interest would possibly be harmed would be those high officials who draw salaries larger than the president of the United States. It is improbable they could find such enormous salaries in any other business; but they have accumulated such fortunes that they can doubtless continue to live lives of luxury the remainder of their days, even if they do not see fit to engage in other enterprises at moderate salaries.

It would be wrong to say that the People did not have the right to protect themseles from extortion by carrying on the insurance business themselves, even if it did destroy the value of property employed by private corporations in this business, but fortunately even this does not occur and all the capital and immense surplus will be returned intact to the insurance companies' stock holders.

CONSTITUTIONALITY.

The objection may be made that State fire insurance would be unconstitutional but an examination of the decisions of the higher courts of the State of Illinois, and of the other states in the United States, fails to disclose any decision in which the question of the constitutionality of a system of State fire insurance has ever been raised.

The general rules as to the powers of the State are laid down as follows: (Harris vs. Board of Supervisors, 105 Ill., 445, 450)

> "The question of legislative power and its extent depends on the limitations contained in the Constitution. When a state is created, it is invested with complete sovereign power, unless restricted by constitutional limitation, and under our system of government such restrictions are written and embodied in organic law. Were it not for these limitations, the legislative power would be without restriction. When we have to determine whether an Act is within the scope of legislative power, we do not look for an express delegation of the power in the fundamental law, but we look to see whether the general power has been limited."

The same principle is again stated in People vs. McCullough, 254 Ill., 9 (16).

> "The legislature may pass any law and do any legislative act not prohibited by the Constitution of the State or the United States."

There is no prohibition in the constitution of the United States against a State engaging in fire insurance; therefore, in determining the question of the constitutionality of State fire insurance, it is only necessary to examine the constitution of the State of Illinois, (1) To see whether there is any positive provision in regard to the creation of State fire insurance, and (2) Whether there is any prohibition of State fire insurance.

An examination of our State constitution discloses that there is no provision for the creation of a State fire insurance system. Neither is there any provision prohibiting a system of State fire insurance. Therefore, we are justified in the conclusion that a system of State fire insurance, created by our legislature, would be constitutional, because the general power of the legislature in that respect has not been limited in any way whatever.

This conclusion is supported by a number of facts. In the first place, under the present constitution, the creation of a State bank is expressly prohibited; also the rendering of aid or granting of money to railroads, or similar enterprises. These prohibitions were necessary because, if they had not been inserted, the State would have had power to engage in such enterprises, which the framers of the Constitution deemed undesirable, and, consequently, found it necessary to insert in the constitution these express prohibitions.

Further support, which would seem conclusive, is afforded by the fact that, although there is no express provision made in the Constitution for these things, the State has legally engaged in many enterprises, of a nature similar to fire insurance, for the benefit of the People of the State. For instance, it constructed the Illinois and Michigan Canal; the Illinois Central Railroad, (partly); it appropriated money for the purchase and maintenance of a State Park at Starved Rock, Illinois; it appropriates money and provides an organization for the purpose of conducting a State Agricultural Fair, and for the support of farmers' institutes; a State Geological Survey; a State Natural History Museum; a State Historical Library; a State Library; for the improvement of the Illinois and Desplaines River; for the maintenance of a Biological Laboratory for the purpose of furnishing free hog cholera serum; and maintains many State charitable institutions. All these things and institutions are for the benefit of the People, and the constitutionality of their creation and appropriation of money for their support has never been successfully questioned. In People vs. Canal Trustees, 14 Ill. 402, the Supreme Court decides that the State has power to legally appropriate money for the purpose of building bridges.

A system of State fire insurance would be self-supporting. But, even if it should require an appropriation of money out of the State Treasury for its inauguration or for its maintenance, this fact would not render it unconstitutional, and there does not seem to be any reason or authority to believe that a system of State fire insurance in Illinois would be unconstitutional. There is no difference in principle between the State engaging in fire insurance for the benefit of the People and their protection against the fire insurance monopoly, and the State engaging in the manufacture and furnishing of hog cholera serum for the benefit of stock-raisers, or maintaining a state fair for the benefit of agriculture, or bridges for the benefit of travelers.

A system of State fire insurance could be very conveniently and economically conducted, together with a system of State management of workmen's compensation. The same commission could have charge of both. The management of the workmen's compensation by the State is a reform which is already in operation in several states and gives the injured workman two or three times as much compensation as stock company casualty insurance at no greater cost to the employer, because the casualty companies absorb, in expenses and profit, one-half to two-thirds of the premiums received by them. It is very desirable that the management and control of workmen's

compensation in Illinois be taken over by the State, and it would add to the economy and success of operations to have them begun at the same time and carried on by the same commission, and each would benefit similarly the parties concerned with each of these burdens. They are both burdens, from accident and misfortune, and should be made as light as possible.

RAPID SPREAD OF WORKMEN'S COMPENSATION.

It will be remembered that until about five years ago the working people of every State in the Union suffered from unjust liability laws. When an investigation was made and the operations of these laws, together with their abuse by stock casualty insurance companies, was disclosed, it was declared to be a national disgrace and workmen's compensation substituted. When this reform was urged, the stock casualty companies arose in holy horror, cried paternalism, and urged every possible objection to workmen's compensation. Within a period of some five years, however, about two-thirds of the States adopted workmen's compensation measures, some of which are administered by the State. Now the People cannot understand how the old employers' liability system was tolerated and look upon its past operation as a blot upon the industrial history of our country. We are approaching the same reform in fire insurance. The enactment of a system of State fire insurance in one of our States would mean that this system would be adopted throughout the United States as was workmen's compensation. Illinois has led in other reforms, and there is no reason why it should not lead in this progressive movement.

MERCENARY PERVERSION OF BENEFICENT IDEA.

Modern fire insurance is the evolution of a beneficent idea. It was not discovered like a hidden mine, a virgin forest, or an unclaimed prairie; hence, the fire insurance industry belongs to no person, set of persons or corporations, and none possess any vested rights or territorial claims upon this industry. Fires are misfortunes, and it is in violation of all ethics and rules of public policy that institutions should not only profit from, but build up and control a business for profit only, based solely upon the misfortunes of our People. The fire insurance business evolved from this beneficent idea should be administered through a system of State fire insurance without profit or emolument of any kind to any person or corporation.

It is not paternalistic for a State to protect its citizens against oppressive and excessive burdens, but it is evidence of

weakness if a State fails to relieve its citizens by removing the underlying causes from which oppression and excessive burdens result. That our citizens are bearing an excessive burden and are sorely oppressed by the present system of fire insurance must be admitted by all. Immediate and complete relief is imperatively demanded, and State fire insurance is the only medium through which complete relief may be obtained.

The theory of State fire insurance carries with it absolutely no basic difficulties. There is no reason why the State of Illinois cannot administer a system of State fire insurance with the People's money as ably, efficiently and effectually as any corporation or number of corporations may likewise do with the People's money. Thus the cry of paternalism so loudly proclaimed by insurance trade journals is but the echo of the wail of the wounded corporations, established for private greed and feeding solely upon the misfortunes of our People. It is not considered paternalism for a city to maintain a fire department; yet the maintenance of such a department is simply a form of municipal fire insurance, which reduces for its citizens the fire hazard. There is no valid reason why this principle should not be extended to a system of State fire insurance which could be administered with the burdens equitably distributed among the insuring public, and thereby the whole People reap the full benefit of complete protection without profit or tribute to any person or corporation.

That the stock fire insurance companies will voluntarily reform is beyond the dream of the most optimistic, nor can they be involuntarily reformed. These corporations, assembled like a hostile fleet, are now exerting every possible effort to defend and maintain the unrighteous privileges that they have long enjoyed. They always have, and do now, oppose all progressive and constructive methods suggested or inaugurated in behalf of the insuring public, and they openly threaten to dislodge any State or government official who seeks to bring about reformation of their business, in order to protect the State and the People from their oppressive practices. They are now gloating, drunk with the pride of power, over the recent defeat of Commissioner Ekern's policy of fire insurance reform urged by him for the State of Wisconsin. With such sordid institutions intrenched as they are, reformation is impossible.

State fire insurance would mean a saving to the People of the State of Illinois of approximately fifteen million dollars a year, to begin with; this sum is about the present yearly State

tax. In twenty years this would mean a saving to the People of our State of more than three hundred million dollars. But the actual dollars saved would not alone measure the benefits. Many lives would also be saved that are now sacrificed by preventable fires. The reserve accumulated from insurance premiums deposited in the hands of either the State Treasurer or a Commission could be invested under the strictest statutory safeguards, and in such a manner as to establish a favorable market for State and municipal securities and for real estate loans.*

*NOTE: On April 3, 1914, I delivered an address on State Insurance before the "Conference on Life Insurance and Its Educational Relations" at the University of Illinois. In that address, I did not include fire insurance in the list of insurance branches which I considered should be conducted by the State, yet I did lay down a general principle applicable to all insurance in the following language:

> "There are certain economic conditions associated with classes of individuals or lines of industry, by reason of which the State must recognize and assume a special responsibility and grant relief through the administration of a system of insurance. Under such conditions, the State is fully warranted in taking over the business of insurance."

Prior to the making of that address, I had not specifically inquired into fire insurance conditions in this State. My investigation, as covered by this report, has been made since that date, and I am now convinced, beyond all doubt, that the business of fire insurance comes clearly within the general principle I laid down in that address, and that it should have been included in the list of insurance branches to be administered by the State. I now confess that, prior to my investigation, I did not realize and had but little idea of the enormous burdens imposed upon the People of my State through the operation of the stock fire insurance "Combine."

ALTERNATIVE—RATES CONTROLLED OR MADE BY STATE.

If, however, for any reason a system of State fire insurance cannot be immediately put in operation in Illinois, then the protection of our citizens demands that rates be controlled by the State.

The recent decision of the United States Supreme Court in what is known as the Kansas rate case holding that the States have power to regulate fire insurance rates finally disposes of any supposed legal difficulties.

This decision contains an exhaustive discussion of the whole question of the power of the States to regulate insurance rates. In it the Supreme Court replies conclusively to the arguments of the insurance "Combine" against the right of the State to regulate insurance rates. This decision settles the question absolutely, and is well worth careful reading by everyone interested in the subject of insurance, so I attach a copy thereof to this report, as an appendix.

In view of the facts and conditions which I have already described it appears to me that some method of effectively regulating insurance rates by the State is imperatively necessary in order to protect the citizens of Illinois. On account of the existence of the "Combine" there is no such thing as securing reasonable rates through competition. The United States Supreme Court decision, which I mention above, is conclusive authority for the right of the State to regulate insurance rates. All that is necessary to secure relief is legislative action. It remains, then, to be considered what is the best method and means of regulating insurance rates. I believe that it should be done by an insurance commission composed of three members. If such a commission only had power to pass upon the rates made by the insurance companies, it would afford considerable relief and be a distinct advance over the present condition of absolute control of rates by the "Combine", which is mitigated only in small part by competition from the mutuals and inter-insurers. I believe, however, that it would be still better for this commission to have the power to themselves, to make a classification of all the property in the State with reference to fire hazard; collect statistics of fire losses under this classification, and, upon the information thus collected, make reasonable maximum rates which the companies would not be allowed to exceed. This commission should have wide powers in relation to fire insurance rates, similar to the powers which the Utilities Commission has over the charges which public utilities are allowed to make.

Unless, however, such a commission could make a correct and thorough classification of property and then accumulate statistics of fire losses in these various classes, they would have insufficient means for determining whether or not any rates tendered by the companies were equitable or not. The companies have no power to require these statistics, nor would they be disinterested parties in collecting and applying the same; therefore, the classification and collection of statistics of fire experience can only be done by a State Commission; but if a commission, and only a commission, must do all this, then they will be in better position to themselves make the rates than any companies or "Combine" of companies.

In further detail the plan which I recommend would be something substantially as follows:

(1) There should first be made a scientific and thorough classification of all fire risks in the State into a sufficient num-

ber of divisions so that all risks will be placed in classes where the hazards will be substantially equivalent.

(2) The **maximum** fire insurance rates on each class should be fixed by a commission appointed by the Governor, of which the Insurance Superintendent would be a member; these rates to be based upon all the experience available as to losses in the different classes and modified from time to time, as further accumulated experience might indicate just and proper. Allow any insurance company to make whatever minimum rate it may see fit, provided that all such rates on the same classes of property in the same community are uniform, and that, when such rates are once made, they cannot be raised for at least twelve months. The latter provision is for the purpose of preventing discrimination by allowing every insurer to have at least one year's benefit of any lower rate. It would also prevent temporary rate-cutting to drive other companies out of business.

(3) Any combination, agreement, pool or understanding by and between fire insurance companies for the purpose of making rates should be absolutely prohibited, but, during the time which might elapse from the passage of such a law until a classification was worked out and rates established by a commission, the companies should be allowed, after filing schedules thereof, to collect such rates as such insurance commission might deem reasonable. All rates during the interim period should be under the control of the commission and made reasonable and free from discrimination.

The plan outlined in paragraphs 1 and 2 above is substantially that in force in Texas, from which very good benefits have been derived, both to insurers and, strange as it may seem, to the companies themselves. The companies are benefited because, by reason of the law, they have been obliged to select better agents, and these have rejected bad risks and so have reduced the burning ratio immensely. This would never have been done under the previous system. A similar benefit will accrue in Illinois.

In the first annual report of the Texas Fire Insurance Commission, just made to the governor of that state, the absolute control by the State of fire insurance rates is declared to be "highly successful" and "the results obtained have shown that the State can control rate-making and fix reasonable rates in a manner just to the people and equitable to the insurance companies."

The State rates are made in Texas at the expense of the insurance companies, which are assessed 1¼% of their gross Texas premiums for this purpose. The key rate system is used, in which "cities and towns are classified scientifically according to general construction, width of streets and alleys, general fire hazard and municipal protection." This, the report says, has encouraged cities to enact ordinances for public safety, and to improve water-work systems and fire departments. Also fire hazards are penalized and thus the public is encouraged to eliminate fire dangers, with the result of a marked reduction in fire loss in Texas. Confidence in the law, as well as approval of its economic benefits, is shown by the fact that not a single request for a public hearing by the Commission has been made, and that there has been no unified complaint during the fourteen months of its existence.

There are 146 local fire marshals in Texas who work in conjunction with the State fire marshal. It is said, however, that the State fire marshal needs more power to be able to effectually enforce the law and obtain more convictions for the crime of arson.

Whatever method is adopted for control of rates, the companies should not be allowed to combine for the purpose of fixing and maintaining rates, even under regulation. Such a "Combine" is contrary to the statutes and the common law of the State of Illinois, and it would be an evil example to allow the insurance companies, whose business is the most profitable of all, to continue the "Combine" under any form or pretext whatever, even if there was absolute control by a commission over rates, the "Combine" would still have immense power of oppression through control of local agents and numerous other methods possible to skilled manipulators. Also the public would be deprived of the benefit of competition which might, and in some classes and localities could and would lower rates below the figures allowed by a commission.

EXCESSIVE PROFITS OF INSURANCE COMPANIES.

A statement which the insurance companies and their advocates are very fond of making is that, in the insurance business as conducted by private corporations, the rates collected by them must be enough to pay all losses and expenses and a profit. This is a general statement which appears, on the face of it, to be fair and reasonable, but in reality is exceedingly deceptive, because it is incomplete, lacking some very im-

portant necessary qualifications, from the non-observance of which a large part of the present day evils in fire insurance arise. These qualifications are:

(1) That the losses must be unavoidable, bona fide losses, and

(2) The expense and profits must be reasonable.

Now, the facts are, that the losses to meet which rates are now fixed are not all unavoidable and bona fide, but a large part thereof are the direct result of over-insurance, criminal negligence and plain arson, for much of which the companies and the system by which the business is carried on at the present time are responsible. It is, perhaps, true, that over-insurance and its resulting evils are not directly encouraged by the companies themselves, but they are the direct results of the agency system and the large number of dishonest and reckless insurance agents. The results from the local agency system cannot be expected to be otherwise, when you reflect that the compensation of the local agent is a percentage commission on the gross amount of the premium, or tax, paid by the insurer. It is, of course, true that there are many honest insurance agents who do not allow this consideration to influence them wrongly, but, unfortunately, there are also many not of this sterling character, so that in the aggregate the influence of the percentage commission is tremendous, and a constant pressure in favor of over-insurance. The ordinary insurance risk is not seen by anyone connected with the insurance company except the local agent, and not often even by him. Consequently, the insurance is written at whatever value figure the local agent may wish, and it is not only to his interest that the premium rates be high, but it is further to his interest that there be quite frequent fires, because this strikes fear to property owners, causes them to seek insurance and makes them willing to pay high rates for it. When a local agent presents a bad risk, the insurance company will accept it in order to secure the good business the agent controls.

As regards the second proviso, I find that the expenses are not reasonable. In round numbers only 50 per cent of the money collected as premiums is paid back to policy holders for losses. Keeping in mind the principle that insurance is a tax, it immediately becomes apparent to every thinking person that an expense of 50 per cent for the collection and disbursement of this tax is unreasonable and exorbitant.

Profits are as far from being reasonable as expenses. The

insurance companies publish complicated tabulations from which they argue that their "underwriting profit" is very low. This claim is entirely deceptive and turns upon the peculiar meaning given to the term "underwriting profit." In all other businesses, the difference between the total income and the total expense is considered the profit and figured as a percentage of the capital stock of the company. The insurance companies, however, take the total premium receipts, and deduct, from this, fire losses, expenses of every kind and character, actual and estimated, and increase in liability. This difference is called the profit, and figured as a per cent of the total premium receipts for the year, the result being termed "underwriting profit." There is no reason why insurance profits should not be calculated like that of banks and other corporations, except the desire of the companies to conceal their enormous profits. Basing profits as they should be, upon the capital stock, some astonishing results are obtained. For instance, I find that, according to the official reports made to me by all the stock fire insurance companies doing business in Illinois, their total income for 1913 was $365,785,595, and their total expenditure, including dividends to stock holders, was $338,703,821, leaving a profit of $27,081,774. The combined capital stock of all these companies was $117,242,333. Thus, the average profit of all these companies was 23.1 per cent per annum. In the case of foreign companies admitted to do business here in the United States, the amount taken as capital is the amount deposited in this country in order to secure permission to do business here. The computation given above does not, however, include the annual dividends paid by the companies, so, in order to get the real profit, dividends must be added. I have not been able to obtain the dividend figures for foreign companies, but have done so for the companies domiciled in the United States. These, according to their official reports, for 1913, had a total income of $253,077,525. In the same period their expenditures, including dividends, were $240,138,912, giving a difference of $12,938,613. The paid up capital stock of these companies amounts to $39,967,347, so that the average percentage of profit, exclusive of dividends, was 32.8 per cent. According to the figures given in the American Exchange and Review (issue of September, 1914), the average dividend paid by the above American companies was 12.3 per cent. Adding this to the above "profit" we have 45.1 per cent per annum average real profit. These results are

obtained from the figures furnished from the companies themselves and cannot in good faith be disputed. The truth is that there is no other business of similar magnitude in the United States which enjoys such enormous profits as the fire insurance business. Certain individual instances further emphasize this fact. The profit in 1913 of the Hartford Fire Iusurance Company was the enormous figure of 119.3 per cent, of the Continental 92.7 per cent, of the German American 86.7 per cent, of the American 67.6 per cent, of the Boston 54.5 per cent, of the Buffalo German 72.7 per cent. This fact is reflected in the very high prices paid for the stocks of these companies.

To more specifically illustrate these profits, I will take for an example the Continental Insurance Company. This company has a capital stock of $2,000,000, and in 1913 declared a dividend of $1,000,000, or 50 per cent. During the past five years, 1909 to 1913, incluusive, this company has declared dividends amounting to $5,200,252, or at the rate of over one million per year. In addition to this, it has increased its assets, the property of its stock holders, over $5,300,000; also at the rate of over one million per year, or the equivalent of another 50 per cent dividend each year. The income upon this stock, therefore, has been over 100 per cent per year for the past five years. It might be mentioned, also, that a share of this stock of a par value of $100 sells for $900. It might be added that other companies show years when even higher profits were made.

BANKING PROFITS OF COMPANIES.

It is a very striking and significant fact, known to but few, that fire companies make no reference whatever to their enormous "banking profits" when presenting statistics to the public, showing their profits. Their income from this source is large, being composed of interest earnings on the enormous amounts of premiums placed in their hands by policy holders, and other ordinary investment profits incident to their business. The following table (which does not include, as income, deposit premiums on perpetual fire risks or cash contributed by stock holders, but only pure income) shows some astonishing results:

Banking Profits.

YEAR.	Capital Stock of all Companies.	Premiums Received. (Fire and Marine.)	Income other than Premiums.
1913.....	$117,242,333	$334,906,028	$30,879,566
1912.....	107,854,789	323,747,258	31,186,886
1911.....	103,760,874	307,474,359	29,211,923
1910.....	98,178,324	300,251,163	26,568,040
1909.....	87,924,512	284,474,144	27,931,569
Totals...	$514,960,833	$1,550,852,952	$145,777,984

Percentage of Profit As Shown By Above Figures.

YEAR.	Percentage of "Other than Premiums Income" to Premium Income.	Capital Stock Dividend produced by "Other than Premiums Income."
1913	9.2%	26.3%
1912	9.6	28.9
1911	9.5	28.2
1910	8.8	27.1
1909	9.8	31.7
Average,	9.4%	28.3% Annually

Thus it is seen that if the fire companies had expended every dollar received for premiums during the past five years to pay fire losses and expenses, they could still have declared a dividend averaging 28.3% on their capital stock each year.

When the facts concerning these enormous profits of the insurance companies are first presented to the average business man, it is frequently difficult for him to understand how they are possible, and he is inclined to be skeptical as to the accuracy of the figures or the good faith of the statement. Consequently I venture to give a few words further in explanation of this matter. Insurance premiums are all paid in advance, most for the term of one year; but a considerable number for terms of three and some five years. Considering for the purpose of illustration the one year policies only, such losses as occur are distributed throughout the year with some approximation to regularity. Some losses occur at the beginning of the year, some at the end of the year and the others at intermediate times. Assuming that the distribution of losses is regular throughout the year, the total effect is the same as if the insurance company received interest on the total premium collected for a period of six months. In addition to this, it receives interest on its capital surplus accumulated from excess of premiums over losses throughout the whole twelve months of the year. The capital of an insurance company is not employed in the business of the company as in the case of other enterprises, but is only for the purpose of affording additional

security to the policy holders that there will be money to meet the losses. As a matter of fact, however, except for exceedingly infrequent emergencies, as the Chicago fire or San Francisco disaster, the capital stock is never touched for any purpose, but is invested in the best interest bearing securities and the interest goes to augment the income of the company. The company collects an ample amount from the policy holders to pay all losses, expenses and a profit. Next take into account the fact that the capital stock of the large insurance companies is small in relation to the business done by them, for example, suppose we have a company with a capital stock of $2,000,000, a surplus of $15,000,000, and a premium collection of $10,000,000, annually. Suppose now we have an interest income of five per cent on the capital stock of $2,000,000, and a surplus of $15,000,000, for the entire year, and on the premium receipts of $10,000,000, for six months, the total amount of interest received would be $1,100,000, which would be 55% on the capital stock of $2,000,000. These are approximately the actual figures of one of the largest insurance companies for the year 1913, and many other similar cases can be given, and shows clearly how the tremendous profits of this and other large insurance companies are possible. It is probable, however, that through shrewd banking and investment operations of the companies, more than 5% interest is realized.

It should be observed that the profits, as explained above, does not include "underwriting profits," *which are the only kind of "profits" to which the companies make any reference in their published statements.

PROFITS FROM ILLEGITIMATE STOCK TRANSACTIONS.

There is another element which enters into the question of fire insurance profits. Investigation by the United States government authorities into illegitimate stock manipulations, such as the New Haven stock transactions, has shown that officials of fire companies unload on their company worthless or depreciated stocks and bonds. These securities are then sold by the companies at a loss, and this loss is included in the ordinary losses and expenses when the companies figure their profits. In the case of the New Haven Railroad, forty-three companies held $7,765,691 in stocks and bonds of this railroad. Of this amount the sworn statements of the respective com-

*"The reader should refer to page 55 for an explanation of what "underwriting profits" are, in the deceptive sense in which the companies use this term.

panies show that $1,331,061 worth was acquired in 1913, when it was known that the New Haven was certain to fail. It is apparent that, in this instance, "unloading" was practiced on a large scale.

SURPLUS AND PROFIT PERCENTAGE CALCULATION.

Some defenders of the insurance companies, however, say that instead of profit being calculated as a percentage of the capital stock invested in the business that it should be calculated upon this capital stock plus the value of the insurance reserve. If calculated in this way the percentage profit averages perhaps ten to fifteen per cent per annum, which they claim is only a fair rate of income. If the surplus had been accumulated by the self-denial of the stock holders of the insurance companies in not taking out of the business a reasonable profit, but allowing it to accumulate therein for the further security of the policy holders, there might be some justification of the position. Such, however, is not the case. These surpluses have been accumulated out of excessive profits during years in which enormous dividends have also been paid. In other words, the rates were so excessive that the companies were able to pay enormous dividends of the magnitudes shown above, and in addition pass large sums of profits to the surplus. If an equitable view of the matter is taken, the stockholders have not furnished the money piled up in the surplus, but this has been extorted from insurers as excessive rates. Therefore, to claim that insurance profits should be considered a percentage upon the surplus is wholly unjustified.

This surplus is accumulated from premiums paid by policy holders, being an amount in excess of that necessary to pay fire losses, excessive expenses, enormous salaries and large dividends and belongs, as a matter of right, to the policy holder, and cannot be justly considered as capital of the stock holders on which they are entitled to dividends. A stock holder is only equitably entitled to returns from his own money, which he has paid into the company's treasury.

EXCESSIVE SALARIES TO OFFICERS.

Another item of unjustifiable expenses of the insurance companies is the enormous salaries paid to its officials. It is difficult to obtain exact amounts as to these facts, but it is said that the president of the Continental Insurance Company receives a regular salary of $50,000.00 per annum, with certain percentage allowances which gives him a total recompense of

considerably over $100,000.00 per annum. The officers of other large companies are similarly compensated.

INSURANCE HAZARD.

It is sometimes claimed, also, on behalf of the companies that they are justly entitled to these great profits by reason of the risks they take. This assertion is entirely untenable. The rates are so high that they more than cover the fire loss, excessive expenses and enormous profits, as shown by a great number of years of experience of each company. This being true, there is, in reality, no risk whatever taken by the insurance company, except the remote "conflagration hazard," for which also the companies provide after each conflagration by a strong raise in rates, which are kept in force continuously and result in enormous additional profit to the companies, as I have previously shown (p. 40). Insurance "hazards" are much less than the financial perils which beset the ordinary merchants. This is proven by the fact that a much larger per cent, in proportion to capital invested in mercantile and industrial ventures, fail.

It is true that quite a number of stock fire insurance companies yearly cease to do business, but this results from the operation of the "Combines", and neither indicates nor proves that the business is unprofitable. In 1913, out of thirty-two stock fire insurance companies which ceased to do business, thirty continued their existence as "annexes" of larger companies. This does not indicate they were doing a losing business, but simply that they were sold at great profit to the larger insurance corporations to further monopoly by reducing the number of competitors.

OTHER RECOMMENDATIONS.

I would also make the following additional recommendation for the reform of certain details of the insurance business in case it is impossible to secure State insurance immediately.

DETAILED STATEMENT OF VALUE OF INSURED PROPERTY.

It should be required by law that there be made a full description, with an explicit statement of the value of buildings insured, and, in the case of personal property, an invoice of it, signed by the owner, and approved by the local agent. The same penalty should be provided for making false statements as to value, condition, quantity, etc., of either real or

personal property, as are by law now provided for obtaining money by false pretenses, in addition to rendering the policy voidable, in the same way that material misrepresentations in an application for life insurance renders a life policy voidable. It should be required that the insurance agent, before approving such statement, should make a personal inspection of all property, real or personal, included in such statement, and that this fact should be certified to in his approval of same. Such description and valuation should be attached to and made a part of each insurance policy. This plan would prevent practically all over-insurance of property, which is what leads to arson.

STANDARD POLICY.

A standard form of fire insurance policy should be adopted by the State, and it should be required that this contain a full and complete itemization of all of the hazards, credits, penalties, etc., which go to make up the complete rate charged on such policy so that the property owner could see how his rate was made up, and so be able to know how to obtain a lower rate by removing unfavorable conditions. There should be a provision that, if an owner improves his property so as to remove unfavorable conditions, the property be given a re-inspection, and a lower insurance rate immediately granted.

CANCELLATION OF POLICIES, ETC.

Insurance companies should not be allowed to cancel policies at will. Cancellation should only be allowed if there had been material misrepresentations, or when there has occurred a material change in the condition of the risk, and these things should be required to be proven in court. If a company should bring suit to cancel a policy and a fire occurred before the case was decided, then, upon a final decision in favor of the company, it should be relieved from liability.

Insurance companies should also be required to grant insurance at regular rates for the class to which the risk belongs to any applicant in the same way that a common carrier must transport, or a hotel keeper must give lodgings to any decent person. The companies, however, should be allowed to refuse insurance for substantial objections either to the risk or the owner proven in court.

AGENTS' QUALIFICATION REQUIREMENTS.

Outside of exorbitant rates, a considerable part of the evils which affect the fire insurance business arise from the fact that, under the Illinois law, any person whatever can act as a fire insurance agent. It is true that the law now requires that each agent secure license from my Department, but there are no qualifications prescribed as pre-requisites. The natural result is that a certain proportion of insurance agents are incompetent and their work perilous to the insuring public. This could be very effectually remedied by a requirement that, before agents are issued licenses, they must show reasonable qualifications which will enable them to understand and carry on the business of writing fire insurance in a careful and business like manner, in accordance with the insurance laws of the State. The provisions suggested by the Illinois State Association of Local Fire Insurance Agents appear to me to be well adapted for this purpose, and I would recommend that the salient features of the same be incorporated into our insurance laws.

FOREIGN RE-INSURANCE AND NET LINES.

The following insurance practice tends to increase the cost of fire insurance, and is also an efficient aid to monopoly:—a fire insurance company will issue a policy for an amount greater than it can carry individually, and then re-insures the excess in a foreign "treaty" company. There are no American re-insurance companies, with the exception of one, which is owned by foreign capital. During the year 1913, $38,000,000 were sent across the ocean for re-insurance premiums. Thus cost of insurance is increased because of the increase of the number of middlemen who each make a profit from the original premium paid by the policy holder. Its tendency toward centralization is due to the fact that the large companies, by reason of their great agency forces, are able to write a far greater amount of insurance than they themselves desire to carry, but re-insure the excess. Consequently, small companies are unable to secure business which they would otherwise get if no companies were permitted to write more insurance than it was itself able and willing to carry. Furthermore, the extent to which they have indulged in this practice has embarrassed several companies considerably, at the present time, because of the fact that they are legally responsible to their policy holders for the full amount of all policies written. In case of loss, the American companies look to the foreign companies for reimbursement, but, on account of the present European war, these companies are temporarily unable to meet their obligations.

I recommend that a "Net Line" law be enacted, prohibiting companies from writing insurance upon any property in an amount greater than they are themselves able and willing to carry.

CO-INSURANCE.

The subject of co-insurance is one which has been liberally discussed, but no legislative action taken in relation thereto in Illinois. The actual practice of the companies doing business in Illinois varies with respect to co-insurance, but I believe that a majority of existing policies are without co-insurance provisions. The companes, however, strongly desire to put co-insurance clauses in all policies for reasons mentioned below, so that this subject should be carefully considered, particularly as co-insurance is prohibited by statute in many States.

The term co-insurance has the following meaning: Suppose an owner instead of insuring his property for the full value decides that he will only insure for a part, say one-half its value, trusting that in case of a fire it will be extinguished before the property is damaged more than one-half. In cities where there is good fire protection the great majority of fires are extinguished before the total loss occurs. Under the ordinary insurance policy where the property is only insured for, say, one-half its value, the company is bound to pay for all of the damage which occurs up to the face of the policy. Thus the insured for a small premium is nearly always able to collect enough money to pay all the fire loss which actually occurs. Naturally the insurance companies are reluctant to see the property owner get off so easy and obtain practically complete protection by paying premiums on only a part of its value, because thereby their revenue is reduced. Consequently to prevent property owners from getting any benefit out of this plan of insuring for only a part of the value of the property where there is good fire protection, the companies have devised what they term a co-insurance clause to be inserted in policies to the effect that, in case a property is only insured for partial value, say one-half, in case partial loss occurs, only such proportion of that loss will be paid as the insurance on the property bears to the total value of the property. If the insurance on the property was $4,000.00 and the actual value of the property was $8,000.00, then in case of loss only one-half of the actual damage would be paid to the insured. Thus, in order to obtain the total insur-

ance of $4,000.00 under such a provision, there would have to be a total destruction of the property amounting to a loss of $8,000.00. On any smaller loss the owner would receive less than the face of the policy; if the damage was $6,000.00, he would receive $3,000.00; if $2,000.00 only $1,000.00, and in proportion for all other damages.

Co-insurance is a subject as to which opinions vary widely. Some states permit the companies to use co-insurance clauses in their policies, but in a large part of the states this is prohibited. The fact that property is insured for less than its value is an absolute protection against arson by the owner. If the owner who pays taxes to maintain an efficient fire department wishes to get some advantage out of this expenditure by insuring his property for less than its full value, trusting the fire protection to prevent full loss, I believe he should be permitted to do so without being penalized by a co-insurance clause. Otherwise, the insurance companies reap the benefit of the good fire protection the owner has paid for, and, if permitted to compel co-insurance, are able to collect as high rates from the insured as if there were no fire protection whatever. The companies claim that permitting an owner to insure for less than the full value of the property is a species of discrimination because it permits the more wide awake and venturesome business man to get protection for that proportion of the property which is liable to be damaged in the ordinary fire at less rates than the more timid man who is only satisfied by having the value of his property totally covered by insurance. This may be true, but my view is that the enterprising and venturesome owner is entitled to all the benefit he gets out of the additional risk which he takes and the fire department tax he pays. By doing this he is simply carrying a part of his own insurance. There is no discrimination whatever in permitting owners to insure for less than full value because any man can do this if he desires. Discrimination only arises where the effect is to give one man a privilege which others do not have. The fact that one man may not feel able to, or may not dare to carry a part of his own insurance, does not render it a discrimination to permit other more venturesome men to do so. In fact, co-insurance which compels all men to insure for the full value of their property is a clear discrimination against the venturesome man, and amounts to forcing property owners to allow insurance companies to take all of the risk, which. when the insurance companies have the fixing of the rates, compels the property owner to pay

the full tax or do without insurance. But, insurance under modern conditions being a necessity, the real effect of insurance is to compel all property owners to pay full taxation to the insurance companies.

Consequently, after careful consideration, I recommend that, while there should be stringent provisions to prevent over-insurance, co-insurance clauses should not be permitted, but that the insurance companies should be compelled to pay the total damage suffered on a risk up to the face of the policy.

"VALUED POLICIES."

In connection with co-insurance comes the subject of a Valued Policy Act. This is a provision compelling an insurance company to pay the face amount of the policy in case of a total loss, the value of the property destroyed by fire being accepted without proof. The companies oppose such a provision of law as tending to foster arson, yet their position in this regard is inconsistent. One purpose of a Valued Policy Act is to prevent overinsurance, it being presumed that, if a company knows it is to be held liable for the full amount of a policy, more care will be exercised in writing the insurance. However, the companies have found overinsurance very profitable to themselves and without a valued policy provision are permitted to receive a premium on an overinsured value of property and than scale the amount on payment of a loss. With the elimination of overinsurance, a Valued Policy Act will not be necessary.

FIRE PREVENTION.

In addition to the elimination of overinsurance and consequent arson, which I have mentioned above as tending to prevent fires, there are certain other measures which would assist in reducing this tremendous annual loss to reasonable figures, such as those in European countries. Among these is the installation of automatic sprinklers for the protection not only of goods within buildings, but in the case of certain buildings in congested districts of great cities the installation of similar devices on the exterior of buildings, called "water curtains," which are pipes arranged so that when heated to a certain point they open the same as the automatic sprinkler heads on the interior of buildings. This permits a sheet of water to run down the outside of the building and is very effective, particularly when used in combination with window glass rein-

forced by wire netting to prevent buildings catching fire from adjacent fires.

A striking example of the benefits of this was exhibited at the very recent fire in Salem, Massachusetts, where a building protected in this way, both within and without, in the midst of a large fire, stored with inflammable material, remained standing. The water curtains on the outside operated and kept down the heat so that not only did the building not catch fire, but not a single sprinkler head on the inside opened.

EDUCATION IN FIRE PREVENTION.

Another important means of fire prevention is the education of the Public and particularly of school children on this subject. Among the topics on which information could be profitably given are: danger from defective chimneys and stove pipes; from defective electric wiring; from use of kerosene to start fires; from accumulations of leaves, rubbish, etc., and from bonfires of the same; from the use of gasoline and illuminating gas; from cigar and cigarette stubs; from fire crackers, fire works, matches, etc. I believe that, since safety matches have become as cheap as any other kind, the sale of parlor matches, and, in fact of all other kind of matches, excepting safety matches, should be prohibited.

Information should also be given of the usefulness of proper lightning rods for preventing fires from this cause, particularly on farm buildings. This is not said for the purpose of aiding professional lightning rod agents, who have so often swindled the People in the past by selling them rods, usually worthless, at exorbitant prices. Better lightning protection than furnished by lightning rod agents can be provided at very small expense, and erected by anyone, in the form of a good galvanized iron or copper wire cable nailed directly to the building extending two or three feet above the highest point and sunk at the bottom down to permanently moist earth. Scientists say that not only are glass or other insulators useless, but they are positively disadvantageous. If the conductor is unbroken and extends into moist earth, there is no danger whatever that the electricity will leave it and strike into the building when fastened directly against the wall. If the conductor is broken, insulators will not save the building.*

*This subject is fully treated in Farmers' Bulletin No. 367, Lightning and Lightning Conductors, by Alfred J. Henry, issued by the United States Department of Agriculture, from which it can be obtained free. I recommend every property owner to send for this and protect his buildings according to its directions.

Information should be given as to the advantages of fireproof construction, or, where this is impossible from cost, of the best fire resisting material, paints, etc., and particularly of the best material and method of roof construction for resisting fires. A considerable number of fires originate in roofs, and, in conflagrations, a fire is nearly always carried by roofs being set on fire.

CLAIM THAT INSURANCE MONOPOLY IS NECESSARY.

The fire insurance companies strenuously claim that their business can only be conducted by means of an agreement or combination for the purpose of making rates. They admit that the method is monopolistic, but justify this and claim that it is absolutely necessary in fire insurance. They endeavor to disarm suspicion by using the harmless term of "co-operation" instead of "trust," "agreement" or "Combine." The facts in the case are that the insurance business in Illinois as at present conducted by the companies through "Combines," which I have already described, is a monopoly of the most oppressive type. Under the terms of the existing understanding, inspections are made and rates fixed for all the companies through the device called the "Illinois Inspection Bureau." If the community of action stopped at this point there might be some truth in the claim that it was legitimate co-operation to save expense. But this is only a preliminary. The essential thing is the further agreement to maintain rates and the Stamping Bureaus, and other effective machinery for enforcing the rate agreement, which enables the "Combine" to compel every member to observe these rates. The courts of Illinois have explicitly decided that an agreement or combination for the purpose of maintaining fire insurance rates is contrary to the laws of the State of Illinois. The insurance companies recognized the correctness of these decisions when they dropped their previous combination methods and attempted to evade these decisions by putting into operation the Illinois Inspection Bureau device and the secret understanding to enforce its rates instead of the previous open agreement to that effect. All other business in the State must be done subject to the anti-monopoly laws of the State. Since courts have decided, and their decision still stands as the law of the State, that the anti-monopoly provisions apply to the insurance business also, the insurance companies' demand, that they be allowed to continue their so-called co-operation, amounts to this:—that they be permitted to continue to violate the anti-monopoly laws of the State.

Of course, no reasonable person will claim that the insurance companies should have the privilege of violating the anti-monopoly law, by any subterfuge, device or trick, whatever, and the companies do not dare to openly take this position themselves, and, therefore, falsely term their scheme "co-operation," because co-operation, in the correct use of the term, is not only a lawful, but a highly commendable thing.

Leaving aside, for a moment, the entire illegality of what the companies are doing under the euphemistic name of co-operation, I desire to examine briefly the claims they make in favor of this alleged co-operation. These in brief are: that this is a greater economy to the companies in making schedules, inspecting and supervising risks and repressing incendiarism; that otherwise it would be impossible to regulate rates and they would be unstable and discriminatory.

I will frankly admit that there would probably be some economy in having the inspections and schedules (which are estimates of relative fire hazards) made for all companies at one time, but it does not follow that it is best for the People that this should be done by a "Combine" of the companies. In the first place far worse discrimination and favoritism are not only possible but are actually practiced at present by the "Combine's" rate-making institution than would be possible under open competition, and the public is absolutely helpless against these things. There is no one to whom appeal can be made against them. Their inspection bureau possesses arbitrary and absolute power. In the second place, there is no protection whatever from exorbitant rates. The Bureau's rates will inevitably reflect the desires of the companies for larger and larger profits, and while provisions for State regulation of these rates, similar to that imposed upon public utilities, would help somewhat, still this process is slow and cumbersome.

If insurance by private companies is to be continued, the best method of rate-making is to have this done by a State commission, which will be more economical than their present arrangement, will be free from the discrimination and favoritism practiced at present, and, most important of all, will enable a thorough and scientific study of the whole subject to be made and reasonable maximum rates made in the fixing of which the People, through their commission, will have something to say.

The claim of the companies that under free competition rates are unstable and therefore discriminatory is wholly fallacious, and not made in good faith, but is a false appeal to the

People's just resentment against discrimination in order that the companies may be allowed to continue their "Combine" by which they are able to extort excessive premiums. Discrimination is entirely unjust and should not be permitted in any form. It cannot, however, be prevented even partially by permitting the companies to combine, except, perhaps, through substitution by the companies of a still worse thing,—equal extortion levied on all instead of some being able to partially escape. Only direct State intervention can effectually prevent discrimination.

The particular discrimination which they allege is liable to occur under free competition is that large insurers and keen business men can, by playing one company against the other, secure lower rates than smaller or less active competitors. This, if true, would be an evil, but will be absolutely done away with by either State-made rates or a system of State insurance, and cannot be thoroughly eliminated by any other method. If the "Combine" methods are permitted or legalized it is possible that some discrimination would be abolished, but it will not be by lowering the rates of the smaller insurers. It will be by raising the rates of the big insurers. This has already occurred to a considerable extent during the past few years in Illinois under the power usurped by the existing "Combine" and with a further access of power through express recognition of "Combine" methods the process will be completed and the rates of everyone forced up to the highest point now exacted from any insurers, and the excessive and enormous profits of the "Combine" companies still further enhanced.

The reality of this process of forcing up rates is attested by numerous complaints on file in my office, from all parts of the State, of enormous raises of rates made since the Illinois Inspection Bureau went into operation in 1908. If this institution or something similar was legalized, the "Combine" would find some means of neutralizing the only protection which now remains to any of our citizens; that, is competition from the mutuals. Mutual insurance is impossible at the present time for a large part of property owners in this State. If it should, by some means, be rendered unavailable to all of them, then our citizens would be entirely at the mercy of the companies, and would either have to pay such rates as the insurance "Combine" saw fit to dictate or do without insurance. But many cannot do without, because they cannot otherwise obtain credit to carry on their business.

All the trusts and monopolies make practically similar defenses of economy and similar claims of disaster unless monopolies are permitted, etc., and they are as false and detrimental to public welfare in the insurance business as in any other business. In fact, since, as I have shown, the effect of the insurance monopoly is to increase instead of decrease fires, I believe that the insurance monopoly has a more damaging and dangerous influence on public welfare than other monopolies.

MONOPOLY.

Monopoly is the greatest evil of the modern industrial era. The general effect of monopoly on the welfare of the People cannot be better summarized than in the words of President Woodrow Wilson:

"Private monopolies are indefensible and intolerable." It only remains to be considered whether the effect of the insurance "Combine" is different and whether it should be legalized, while other monopolies are outlawed. The facts and considerations I have outlined above refute such claims conclusively. The fire insurance monopoly not only taxes the People more than twice as much as would be necessary to distribute the legitimate fire loss among the whole People instead of allowing it to crush a few unfortunates, but actually increases the annual fire waste and loss of human life. Some monopolies in return for their exactions have given improved service to the Public, but the effect of the fire insurance monopoly is to make natural conditions worse.

There is a curious inconsistency in the companies' position that they cannot survive free competition because the fact is that, except in the matter of premium rates, the companies are and will continue to be in intense competition as to other things, particularly the commission paid to agents. There are two ways of increasing the business of a company. One is by reducing the rates to the Public, the other is by increasing the commission to the agents. Just as soon as by combination the companies have gotten rid of competition in premium rates, then they begin competition for business by raising the commission to their agents. This has gone to an almost unbelievable extent. In Chicago the companies according to sworn statements made in examination by my Department admitted they pay commission as high as 40 per cent on some lines.

The insurance companies can continue to do business while competing in premium rates just as well as they can continue to do business while competing for local agents and other factors in their business. It is absurd and illogical for the companies to claim that in order to remain solvent they must be permitted to eliminate competition as to premium rates while they continue in the most strenuous competition as to everything else in their business. This competition as to everything excepting rates means much useless, costly duplication of officers, agencies, etc., which necessarily causes continually increasing expense to be added to the heavy burdens of the policy holders. They do not seek to avoid this, but only to escape competition in rates which would tend to lighten the burdens of the policy holders. If any business can be successfully operated only as a monopoly, then it is time for the People, through their governmental institutions, either to effectively control or to take over and themselves operate such business. Only by so doing, can they escape extortion and robbery and be able to enjoy the pleasures and benefits of modern civilization. The argument for monopoly in the fire insurance business is only the selfish plea of those who, having wrung enormous profits out of the necessities of the People, are fighting for permission to continue to do so. Their attitude is the same everywhere. Alglave says: (Assurance Contre L' Incendie, Service Public, En Allemagne, p. LIV.)

> "Let us not forget that they (the insurance companies) are not philanthropists, but dealers who seek to sell their merchandise at the highest prices that are possible."

BENEFITS OF INSURANCE.

In conclusion, I do not think it necessary to enter upon any extended exposition or eulogy of the benefits of insurance if it is conducted on correct principles, and with the aim of benefiting the People as a whole instead of affording monopolists a means of collecting tribute. Insurance is essentially an institution for expressing effectively under modern conditions the sympathy and aid of human fraternity. It is the visible and merciful embodiment of the spirit of brotherhood of all men. Adopting the words of a recent writer, we may consider this great institution says to mankind:

> "Fire and flood, lightning and tornado, will, unless my shield is over you, inevitably bring misfortune and disaster to many, but dismiss your fears and anxiety and pursue your vocations with courage and perseverance, for, if these things should perchance be allotted to you by the inscrutable decrees of fate, never-

theless I will surely protect you. Your riches and your happiness shall not be diminished, for I will replace your losses. Rely on me and the dangers of the air, the sea and the land shall cease to exist for you. Under my protection you shall live your allotted days in peace of mind, and when the final summons comes, as come it must to each, you shall depart consoled by the thought that your loved ones are not exposed to sudden disaster nor liable to the miseries of poverty and the pangs of hunger."

Selfish and greedy men have seized and made a monopoly of this beneficent institution so that, to realize its benefits, the People are obliged to pay heavy tribute to them. This is a great wrong. It should not be possible for such a heavy price to be exacted by the mere middlemen who collect and dispense insurance. It should be conducted at cost, but this can only be done by the People themselves through their governmental institution, the State.

SUMMARY.

The important facts which stand out in bold relief as a general result of my investigation of the fire conditions in Illinois are: premium rates, especially on dwellings, are excessive and discriminatory; Chicago being particularly subjected to insurance extortion; this is so because there exist three insurance "Combines" in Illinois, which fix rates and prevent competition. An insurance "Combine" is illegal and the courts in Illinois have so decided. The People of the State of Illinois, as shown by complaints continually received by this Department, are becoming aroused, and demand, and should have, immediate relief. Complete relief can only be secured by establishing a system of State fire insurance which will afford great, immediate reduction in rates and ultimately reduce rates to near to the European State Insurance rates, which are only one-ninth of those in force here. The People of the State of Illinois are as much entitled to fire insurance at cost as the citizens of Switzerland, Germany, Norway, or New Zealand, and are as capable of carrying on a system of fire insurance as are the citizens of those nations. There is no constitutional or other reason, whatever, why Illinois should not enjoy the benefits of State fire insurance, except the clamor of the already enormously rich companies against giving up the "Good Thing" they have enjoyed in the past. When they entered into a monopolistic "Combine" they forfeited any claim to consideration, and the People of the State of Illinois should

take steps to provide themselves with fire insurance protection at cost, without any thought of the effect on the fire insurance companies.

CONTINUATION OF OUR EFFORTS FOR REFORM NECESSARY.

It was at your direction that I began this investigation. You have carefully followed its progress, and continuously assisted with your advice and co-operation. You have manifested a deep interest in fire insurance conditions existing in our State and their effect upon the public welfare, and the reform which is certain to be brought about in this business will only be the legitimate fruit of your courage and initiative. The results obtained and disclosures made by this investigation show that your original apprehension was well founded that the citizens of Illinois were being charged excessive premium rates by the stock fire insurance corporations upon practically every class of property, and especially in the case of dwelling houses and flats.

I also desire to express my sincere personal thanks for the cordial and efficient support which you have at all times given me in bringing to the surface the inner workings of the gigantic fire insurance "Combine" or "Trust", which today either directly or indirectly lays an unnecessary burden upon every citizen of this State. I trust you may continue your interest and lend your influence for fire insurance reform, which can only be secured by a thorough revision of the fire insurance laws of Illinois. The methods and practices of the present "Combine" must be replaced by some fair and equitable system of fire insurance, and, when established, its successful operation in the face of the bitter fight the "Combine" is certain to make will require a continuation of your strong support and favorable influence.

I wish to say further, that I am greatly indebted to the Illinois Press Association, and particularly their Insurance Committee, for the cordial support and assistance they have given me in this investigation, and confidently rely upon their further efforts in disseminating information and educating the People for the achievement of this reform, through safe and proper legislation.

The agitation for reform in the insurance business has just started. The immense majority of the citizens of the State of Illinois are ignorant of the true facts in the case. They feel

that they are suffering from a great burden, but they do not know that this is mostly for the benefit of monopolists. The People must investigate the facts in the case: they must educate themselves and take an intelligent and intense interest in the matter. Under our Democratic system of government, relief from oppressive conditions must come from the People themselves, and it is to contribute to their education and enlightenment as to fire insurance and promote their welfare and happiness by showing them how their present indefensible insurance burdens may be lightened that I submit the facts and suggestions of this report.

Respectfully,

RUFUS M. POTTS,,
Insurance Superintendent.

November 19, 1914.

Note:—Since the filing of this Report, the companies have at last, on November 23, 1914, presented an answer to my Preliminary Report made to Your Excellency on May 6, 1914. In this answer, the companies deny the existence of any combination for the purpose of controlling fire insurance rates; they disclaim responsibility for the operations of the Chicago Board of Underwriters, alleging that this is an organization of Chicago local agents; and also claim that they are not able to grant a reduction in the premium rates. Their allegations all relate to matters of fact which are fully covered with ample evidence to substantiate my statement thereof in this Report. Nothing contained in their answer warrants me in modifying in the least the conclusions and recommendations made herein.

APPENDIX A.

ABSTRACT OF REPORT OF HERMAN L. EKERN, INSURANCE COMMISSIONER OF WISCONSIN.

That the tax to Wisconsin policy holders from fire insurance premiums paid by them to the stock fire insurance corporations in the last ten years was nearly three times the direct State tax for the same period, is the important statement in the forthcoming report of State Insurance Commissioner, Herman L. Ekern, in discussing fire insurance rates in Wisconsin.

Mr. Ekern also states that: "The stock companies' fire losses were 1 1-5 times the State tax. The stock companies' expense and profits were 1 2-3 times the State tax. This fire premium tax is largely unnecessary. The losses are too large, the expenses are excessive, and, as compared with other states and with the entire United States, the stock insurance corporations are overcharging the people of Wisconsin."

In his report, Mr. Ekern states that the people of Wisconsin have paid to the stock fire insurance corporations from 1904 to 1913, in net premiums, $68,065,042, and have received in return for losses $29,152,025, or $42.80 per $100 in premiums. Four stock companies, located in Wisconsin, collected in net premiums $5,344,399, and paid in losses $1,599,964, or $29.90 for each $100 in premiums.

"The stock corporations have thus collected from the people of Wisconsin $38,913,017 more than they have returned. Deducting the increase in reserve liabilities, the amount taken in ten years from the people of Wisconsin for expenses and profits is $37,600,000," continues the report.

"During the same period the mutual companies doing a general business in Wisconsin collected in net premiums $6,138,062, or $55.50 out of each $100 of premiums collected. The farmers' town mutual companies collected $7,129,954, and paid back in losses $5,829,694, or $81.80 for each $100 collected in premiums.

The report further states that the same companies, during the same period, returned in losses throughout the United States $56.30 per $100 of premiums, and for the nine years, omitting the San Francisco conflagration in the year 1906, they

returned $52.10 per $100 of premiums throughout the United States.

Discussing conflagrations he says "That, notwithstanding the $150,000,000 paid on account of the San Francisco earthquake and conflagration, "the state of California has in 34 years, from 1880 to 1913, paid to the stock fire insurance corporations more money than it has received in return for losses. The total premiums for the period are $274,654,276, and the losses $246,195,714, or 90% of the premiums. The State has thus not alone paid all its own losses, but has paid enough to cover the expense of a business conducted with an economy a little more than equal to that of the Wisconsin farmers' mutuals.

Discussing the excessive Wisconsin cost to policy holders, the report states that during the ten year period it has cost $234 in net premiums paid to the stock corporations by Wisconsin policy holders to pay $100 in losses, against the $177.60 collected by the same companies from policy holders throughout the United States. It has cost $180 in mutual companies, and $122 in the farmers' town mutuals for each $100 paid in losses, against $334 in premiums paid Wisconsin stock companies for each $100 of Wisconsin losses paid. The stock companies collected 83% of the net Wisconsin premiums and paid 75% of the total Wisconsin losses. Attention is called to Vermont, where, during 1913, the home mutual companies collected 42% of the premiums and paid 52% of the losses.

Tables are given showing the rate of loss per $100 for each of the ten years for each class of companies.

After stating that the overcharge for the ten years to Wisconsin policy holders, as compared with the rest of the country, has been 24% and 16% for the last five years, 28% for 1912, and 36% for 1913, Mr. Ekern concludes: "Whether the overcharge may be reckoned at the $1,500,000 per year for the ten year average, or $1,100,000 per year for the five year average, or $2,000,000 for 1912, or $2,600,000 for 1913, it is apparent that Wisconsin is a very profitable State to the stock fire insurance corporations."

The report further states that losses in Wisconsin have been, and will be, very considerably reduced by the advanced fire prevention work, now being done under the laws resulting from the recommendations of the legislative fire insurance investigating committee of 1912. He states that the reductions

in premiums have not kept pace with the reductions in losses, and that to maintain public interest in this work there must be corresponding reductions in rates. Commenting on the recommendations of this committee for regulation of fire rates, he says:

"These recommendations of the investigating committee were defeated, and there is now no authority under the law for the regulation of the rates of fire insurance companies, or for an inquiry into such rates, except such as may be made by the commissioner of insurance, under the authority given to him to make recommendations for legislation. Such laws for inquiry into and the regulation of fire insurance rates are absolutely necessary. This is one of the big problems in Wisconsin."

APPENDIX B.

NOTE:—The following decision of the United States Supreme Court is of as fundamental importance in relation to fire insurance as the Dartmouth case was in relation to corporations, the Dred Scott case in relation to slavery or the case of Munn vs. Illinois in relation to power of the State to control railroad rates. First is given, in smaller type, the statement of the facts of the case made by the court, followed in larger type by the decision of the court giving the law as applied to the facts. In this decision certain parts, containing the most important principles, are printed in black-face type. Any one who does not have time to read the whole decision can get a good idea of the law as laid down by the Supreme Court in the decision from reading these black-face passages.

SUPREME COURT OF THE UNITED STATES.

No. 120.—October Term, 1913.

German Alliance Insurance Company, Appellant, vs. Ike Lewis, as Superintendent of Insurance of the State of Kansas. } Appeal from the Circuit Court of the United States for the District of Kansas.

(April 20, 1914.)

Bill in equity to restrain the enforcement of the provisions of an act of the State of Kansas entitled "An Act relating to Fire Insurance and to provide for the Regulation and Control of rates of Premium Thereon and to Prevent Discriminations Therein." Chap. 152 of the Sessions Laws of 1909.

The grounds of the bill are that the act offends the Constitution of the State and of the United States.

A summary of the requirements of the act is as follows:

Sec. 1. Every fire insurance company shall file with the superintendent of insurance general basis schedules showing the rates on all risks insurable by such company in the State and all the conditions which affect the rates or the value of the insurance to the assured.

Sec. 2. No change shall be made in the schedules except after ten days' notice to the superintendent, which notice shall state the changes proposed and the time when they shall go into effect. The superintendent may allow changes upon less notice.

Sec. 3. When the superintendent shall determine any rate is excessive or unreasonably high or not adequate to the safety or soundness of the company, he is authorized to direct the company to publish and file a higher or a lower rate, which shall be commensurate with the character of the risk; but in every case the rate shall be reasonable.

Sec. 4. No company shall engage or participate in insurance on property located in the State until the schedules of rates be filed nor write insurance at a different rate than the rate named in the schedules, or refund or remit in any manner or by any device any portion of the

rates; or extend to any insured or other person any privileges, inducements or concessions except as specified in the schedules.

Sec. 5. Any company making insurance where no rate has been filed shall, within thirty days after entering into such contract, file with the superintendent a schedule of such property showing the rate and such information as he may require. The schedule shall conform to the general basis of schedules and shall constitute the permanent rate of the company.

Sec. 6. The schedules shall be open to the inspection of the public, and each local agent shall have and exhibit to the public copies thereof relative to all risks upon which he is authorized to write insurance.

Sec. 7. No company shall directly or indirectly, by any special rate or by any device, charge or receive from any person a different rate of compensation for insurance than it charges or receives from any other person for like insurance or risks of a like kind and hazard under similar circumstances and conditions in the State. Any company violating this provision shall be deemed guilty of unjust discrimination, which is declared unlawful.

Sec. 8. The superintendent may, if he finds that any company, or any officer, agent or representative thereof, has violated any of the provisions of the act, revoke the license of such offending company, officer, or agent, but such revocation shall not affect liability for the violation of any other section of the act; and provided that any action, decision or determination of the superintendent under the provisions of the act shall be subject to review by the courts of the State as provided in the act.

Sec. 9. The superintendent shall give notice of any order or regulation made by him under the act, and any company, or any person, city or municipality which shall be interested, shall have the right within thirty days to bring an action against the superintendent in any district court of the State to have the order or regulation vacated. Issues shall be formed and the controversy tried and determined as in other cases of a civil nature, and the court may set aside one or more or any part of any of the regulations or orders which the court shall find to be unreasonable, unjust, excessive or inadequate to compensate the company writing insurance thereon for the risk assumed by it, without disturbing others. The order of the superintendent shall not be suspended or enjoined, but the court may permit the complaining company to write insurance at the rates which obtained prior to such order upon the condition that the difference in the rates shall be deposited with the superintendent to be paid to the company or to the holders of policies as, on final determination of the suit, the court may deem just and reasonable. During the pendency of the suit no penalties or forfeitures shall attach or accrue on account of the failure of the complainant to comply with the order sought to be vacated or modified until the final determination of the suit. Proceedings in error may be instituted in the Supreme Court of the State as in other civil cases, and that court shall examine the record, including the evidence, and render such judgment as shall be just and equitable. No action shall be brought in the United States courts until the remedies provided by the act shall have been exhausted. If any company organized under the laws of the State or authorized to transact business in the State shall violate the section, the superintendent may cancel the authority of the company to transact business in the State.

Sec. 10. Infractions of the act are declared to be misdemeanors and punishable by a fine not exceeding $100 for each offense, provided that if the conviction be for an unlawful discrimination the punishment may be by a fine or by imprisonment in the county jail not exceeding ninety days, or by both fine and imprisonment.

Sec. 11. No person shall be excused from testifying at the trial of any other person on the ground that the testimony may incriminate him, but he shall not be prosecuted on account of any transaction about which he may testify, except for perjury committed in so testifying;

"provided, that nothing in this act shall affect farmers' mutual insurance companies, organized and doing business under the laws of this State and insuring only farm property."

The bill alleged that it was brought by the German Alliance Insurance Company in behalf of itself and all other companies and corporations conducting a similar business and similarly situated, and that Charles W. Barnes was the duly elected superintendent of fire insurance of the State of Kansas. It alleged the jurisdictional amount, and that the controversy was one arising under the Constitution of the United States and of the State of Kansas. It alleged, further, the following facts, which we state in narrative form, omitting those which relate to the constitution of the State, no assignment of error being based upon them: The appellant, to which we shall refer as complainant, was incorporated under the laws of New York as a fire insurance company in 1879 and immediately entered upon such business, and it has for long periods of time conducted the business of fire insurance in Kansas and other States of the United States.

The business of fire insurance as conducted by it consists of making indemnity contracts against direct loss or damage by fire for a consideration paid, known as a premium; that the rate or premium is the amount charged for each $100 of indemnity. The property which is the subject of insurance is ordinarily known and designated as the risk. Complainant issues indemnity contracts or fire insurance policies covering all kinds and descriptions of improvements upon real estate and the contents thereof and all kinds and descriptions of personal property and also farm houses, barns and granaries and their contents. The rate of premium varies with the kind of property covered, its physical characteristics and situation, its exposure, the presence or absence of fire protection, and many other causes.

The establishment of the basis rate for the premium to be charged is a matter of technical and mathematical deduction from the experience of all fire insurance companies covering a long period of years and, territorially, the whole civilized world. To make such deduction it is necessary not only to be in possession of the compiled statistics of fire insurance business, but also to be skilled in the mathematical "theory of probabilities" and in the "law of large numbers" so as to be able to apply with technical accuracy such laws and such data, and that no one not specially trained as an insurance statistician is competent to make such deductions.

A theoretically correct basis rate having thus been arrived at is subject to variation according to the risk, whether in town or country, and, if in the former, according to the class of town or city in which it is situated. The classification of towns and cities depends upon water supply, fire protection and general physical conditions. In addition to ascertaining the individual risk, if a building, the size, material of which and the manner in which it is constructed, the character of the occupancy, and the character of the occupancy and construction of adjacent buildings, also the character of the contents of the buildings and the manner in which they are stored and the precautions used to detect and prevent fires, are necessary to be ascertained.

Complainant and others engaged in the insurance business employ a large number of men skilled as inspectors to report upon individual risks, and it is impossible to fix and adjust a reasonable rate of premium for each and every individual risk without the information so obtained and having the same applied by experts. And such training and information are necessary to determine whether a basic rate or actual rate as applied to any particular risk is or is not reasonable, and the respondent is not possessed of the requisite information or special training necessary to qualify for such determination and any conclusion to which he might come would be a mere guess or arbitrary determination; and the provisions of the act can only be properly administered in any event by the employment by the State of a corps of inspectors and experts specially trained in the business of fixing rates of fire insurance.

The complainant has complied with all of the laws of the State and has received the regular license or authorization of the State, to transact the business of fire insurance therein.

It conducts its business by means of resident agents, of which it has seventy-two directly employed; it has a large and valuable established business to secure which it has expended a large sum of money, and to be compelled to give up its business would result in irreparable damage and injury to it. A large number of the fire insurance policies issued by complainant are written upon farm buildings and their contents and in writing such business it comes into direct competition with various farmers' mutual insurance companies organized and doing business under the laws of the State and insuring only farm property.

The business of fire insurance is purely and exclusively a private business and may be transacted by private persons in their individual capacity or by unincorporated or incorporated companies, that the amount of indemnity and the premium is a matter of private negotiation and agreement, and the act of the legislature of the State of Kansas attempts to regulate the business in so far as the fixing of the rate of premium is concerned and in the attempted regulation distinguishes between fire insurance companies and individuals and partnerships, and thereby denies to complainant and other companies the equal protection of the law, contrary to the Fourteenth Amendment to the Constitution of the United States, and is therefore unconstitutional and void.

Under the laws of Kansas, mutual fire insurance companies may be organized, that such companies having a guaranteed fund of $25,000 may do business on a cash basis and accept premiums in cash and that such premium measures the total liability of the insured under the policy either to the company or to its creditors; that, by the 11th section of the act under review, it is provided "that nothing in this act shall affect farmers' mutual insurance companies, organized and doing business under the laws of this State, and insuring only farm property." The complainant and many other companies insure farm property and come into direct competition with farmers' mutual companies of the character specified and the act of the legislature in excepting the latter companies deprives complainant of the equal protection of the laws and is therefore repugnant to the Fourteenth Amendment of the Constitution of the United States and is unconstitutional and void.

The business of fire insurance is private, with which the State has no right to interfere, and the right to fix by private contract the rate of premium is a property right of value; the business is not a monopoly either legally or actually, it may not be legally conducted by the National Government or by the State of Kansas or other States under their respective constitutions, and is not a business included within the functions of government. Neither complainant nor others engaged in fire insurance receive or enjoy from the State of Kansas or any government, State or National, any privilege or immunity not in like manner and to like extent received and enjoyed by all other persons, partnerships and companies, incorporated or unincorporated, respectively, engaged in the conduct of other lines of private business and enterprises. Complainant, therefore, is deprived of one of the incidents of liberty and of its property without due process of law, in violation of the Fourteenth Amendment to the Constitution of the United States.

The act distinguishes between fire insurance companies and other insurance companies, individuals and persons and distinguishes between insurance and other lines of business and thereby offends the equality clause of the Constitution of the United States.

Complainant, under protest, filed the general basis schedules of its rates as required by the act, which were arrived at by the process hereinbefore set out. On the 19th of August, 1909, respondent made a reduction of 12% from the rates as filed and from the rates filed by other companies, with the proviso that it should not apply to residence property, churches, school houses, farm property or special hazards. The

order was to become effective September 1, 1909. And it was further odered that on and after that date the exceptions of churches and dwelling houses should be eliminated. Complainant notified the superintendent by letter that it would, under protest, and reserving the rights which it had under the law, comply with the provisions of the order.

The risks included in the order, and not excepted therefrom, comprise all ordinary mercantile risks in the State and that the reduction of 12% will result in a rate which is much less than the cost of carrying the risks.

Respondent is threatening to make further reductions and it is proposed to revoke the license of any fire insurance company which may violate the provisions of the act, even though the rates fixed by him may be so low as to be confiscatory and to inflict upon the officers of the company, including complainant, the penalties prescribed for such violation, and such companies and complainant, unless defendant be restrained by injunction, will be obliged to comply with the requirements of the act to their irreparable damage and injury.

Complainant finally alleges that it is not its purpose to attack the orders of respondent on the ground that they were not made in strict compliance with the provisions of the act, but to have the act in its entirety declared to be unconstitutional and void for the reasons alleged, and to have respondent restrained and orders made by him under the provisions of the act enjoined. And such an injunction is prayed.

Respondent filed a demurrer stating that he demurred to so much of the bill as charges the act of the State of Kansas to be repugnant to the constitution of Kansas and the Constitution of the United States. The demurrer was sustained. Subsequently, upon the bill being amended, a general demurrer was filed, which was also sustained by the court, and the bill dismissed. Prior, however, to this action, it having been suggested that the term of office of Charles W. Barnes as superintendent of insurance had expired and that Ike Lewis had succeeded to that office and to all of its duties and powers, he was made defendant in the place and stead of Charles W. Barnes.

After stating the case as above, Mr. Justice McKenna delivered the opinion of the Court.

The specific error complained of is the refusal of the district court to hold that the act of the State of Kansas is unconstitutional and void as offending the due process clause of the Fourteenth Amendment of the Constitution of the United States. **To support this charge of error, complainant asserts that the business of fire insurance is a private business and, therefore, there is no constitutional power in a State to fix the rates and charges for services rendered by it.** An exercise of such right, it is contended, is a taking of private property for a public use. The contention is made in various ways and, excluding possible countervailing contentions, it is urged that the act under review cannot be justified as an exercise of the police power or of the power of the State to admit foreign corporations within its borders upon such terms as it may prescribe, or of any other power possessed by the State; that no State has the power to impose unconstitutional burdens either upon private citizens or private corporations engaged in a private business.

The basic contention is that the business of insurance is a natural right, receiving no privilege from the State, is voluntarily entered into, cannot be compelled nor can any of its exercises be compelled; that it concerns personal contracts of indemnity against certain contingencies merely. Whether such contracts shall be made at all, it is contended, is a matter of private negotiation and agreement, and necessarily there must be freedom in fixing their terms. And "where the right to demand and receive service does not exist in the public, the correlative right of regulation as to rates and charges does not exist." Many elements, it is urged, determine the extending or rejection of insurance; the hazards are relative and depend upon many circumstances upon which there may be different judgments, and there are personal considerations as well—"moral hazards," as they are called.

It is not clear to what extent some of these circumstances are urged as affecting the power of regulation in the State. It would seem to be urged that each risk is individual and no rule of rates can be formed or applied. The bill asserts the contrary. It in effect admits that there can be standards and classifications of risks, determined by the law of averages. Indeed, it is a matter of common knowledge that rates are fixed and accommodated to those standards and classification in prearanged schedules, and, granted the rates may be varied in particular instances, they are sufficiently definite and applicable as a general and practically constant rule. They are the product, it is true, of skill and experience, but such skill and experience a regulating body may have as well as the creating body. Indeed, an allegation in the original bill that the superintendent of insurance could not have the requisite technical and mathematical training to determine whether a basic rate or an actual rate as applied to any particular risk was or was not reasonable and that his conclusion, therefore, "would be a mere guess or arbitrary determination" was omitted by an amendment. **It would indeed be a strained contention that the Government could not avail itself, in the exercise of power it might deem wise to exert, of the skill and knowledge possessed by the world.** We may put aside, therefore, all merely adventitious considerations and come to the bare and essential one, whether a contract of fire insurance is private and as such has constitutional immunity from regulation. Or, to state it differently and to express an antithetical proposition, is the business of insurance so far affected with a public interest as to

justify legislative regulation of its rates? And we mean a broad and definite public interest. In some degree the public interest is concerned in every transaction between men, the sum of the transactions constituting the activities of life. But there is something more special than this, something of more definite consequence, which makes the public interest that justifies regulatory legislation. We can best explain by examples. The transportation of property—business of common carriers—is obviously of public concern and its regulation is an accepted governmental power. The transmission of intelligence is of cognate character. There are other utilities which are denominated public, such as the furnishing of water and light, including in the latter gas and electricity. We do not hesitate at their regulation nor at the fixing of the prices which may be charged for their service. The basis of the ready concession of the power of regulation is the public interest. This is not denied, but its application to insurance is so far denied as not to extend to the fixing of rates. It is said, the State has no power to fix the rates charged to the public by either corporations or individuals engaged in a private business, and the "test of whether the use is public or not is whether a public trust is imposed upon the property and whether the public has a legal right to the use which cannot be denied;" or, as we have said, quoting counsel, "Where the right to demand and receive service does not exist in the public, the correlative right of regulation as to rates and charges does not exist." Cases are cited which, it must be admitted, support the contention. The distinction is artificial. It is, indeed, but the assertion that the cited examples embrace all cases of public interest. The complainant explicitly so contends, urging that the test it applies excludes the idea that there can be a public interest which gives the power of regulation as distinct from a public use which, necessarily, it is contended, can only apply to property, not to personal contracts. The distinction, we think, has no basis in principle. (Noble State Bank v. Haskell, 219 U. S. 104), nor has the other contention that the service which cannot be demanded cannot be regulated.

Munn v. Illinois, 94 U. S. 113, is an instructive example of legislative power exerted in the public interest. The constitution of Illinois declared all elevators or storehouses, where grain or other property was stored for a compensation, to be public warehouses, and a law was subsequently enacted, fixing rates of storage. In other words, that which had been private

property had from its uses become, it was declared, of public concern and the compensation to be charged for its use prescribed. The law was sustained against the contention that it deprived the owners of the warehouses of their property without due process of law. We can only cite the case and state its principle, not review it at any length. The principle was expressed to be, quoting Lord Chief Justice Hale, 'that when private property is "affected with public interest it ceases to be juris privati only" and it becomes "clothed with a public interest when used in a manner to make it of public consequence, and affect the community at large"; and, so using it, the owner "grants to the public an interest in that use, and must submit to be controlled by the public for the common good.' And it was said that the application of the principle could not be denied because no precedent could be found for a statute precisely like the one reviewed. It presented a case, the court further said, "for the application of a long-known and well-established principle in social science, and this statute simply extends the law so as to meet this new development of commercial progress." The principle was expressed as to property, and the instance of its application was to property, but it is manifestly broader than that instance. It is the business that is the fundamental thing; property is but its instrument, the means of rendering the service which has become of public interest.

That the case had broader application than the use of property is manifest from the grounds expressed in the dissenting opinion. The basis of the opinion was that the business regulated was private and had "no special privilege connected with it, nor did the law ever extend to it any greater protection than it extended to all other private business." The argument encountered opposing examples, among others, the regulation of the rate of interest on money. The regulation was accounted for on the ground that the act of Parliament permitting the charging of some interest was a relaxation of a prohibition of the comon law against charging any interest, but this explanation overlooked the fact that both the common law and the act of Parliament were exercises of government regulation of a strictly private business in the interest of public policy, a policy which still endures and still dictates regulating laws. Against this conservation of the mind, which puts to question every new act of regulating legislation and regards the legislation invalid or dangerous until it has become familiar, govern-

ment—State and National—has pressed on in the general welfare; and our reports are full of cases where in instance after instance the exercise of regulation was resisted and yet sustained against attacks asserted to be justified by the Constitution of the United States. The dread of the moment having passed, no one is now heard to say that rights were restrained or their constitutional guaranties impaired.

Munn v. Illinois was approved in many state decisions, but it was brought to the review of this court in Budd v. New York, 143 U. S. 517, and its doctrine, after elaborate consideration, re-affirmed, and against the same arguments which are now urged against the Kansas Statute. Nowhere have these arguments been, or could be, advanced with greater strength and felicity of expression than in the dissenting opinion of Mr. Justice Brewer. Every consideration was adduced, based on the private character of the business regulated, and, for that reason, its constitutional immunity from regulation, with all the power of argument and illustration of which that great judge was a master. The considerations urged did not prevail. Against them the court opposed the ever-existing police power in government and its necessary exercise for the public good and declared its entire accommodation to the limitations of the Constitution. The court was not deterred by the charge (repeated in the case at bar) that its decision had the sweeping and dangerous comprehension of subjecting to legislative regulation all of the business and affairs of life and the prices of all commodities. Whether we may apprehend such result by extending the principle of the cases to fire insurance we shall presently consider.

In Brass v. Stoesser, 153 U. S. 391, Munn v. Illinois and Budd v. New York were affirmed. A law of the state of North Dakota was sustained which made all buildings, elevators and warehouses used for the handling of grain for a profit public warehouses, and fixed a storage rate. The case is important. It extended the principle of the other two cases and denuded it of the limiting element which was supposed to beset it—that to justify regulation of a business the business must have a monopolistic character. That distinction was pressed and answered. It was argued, the court said, "that the statutes of Illinois and New York (passed on in the Munn and Budd cases) are intended to operate in great trade centers, where, on account of the business being localized in the hands of a few persons in close proximity to each other, great opportu-

nities to raise and control elevating storage charges are afforded, while the wide extent of the State of North Dakota and the small population of its country towns and villages are said to present no such opportunities." And it was also urged that the method of carrying on business in North Dakota and the Eastern cities was different, that the elevators in the latter were essentially means of transporting grain from the lakes to the railroads and those who owned them could, if uncontrolled by law, extort such charges as they pleased, and stress was laid upon the expression in the other cases which represented the business as a practical monopoly. A contrast was made between those conditions and those which existed in an agricultural State where land was cheap and limitless in quantity. It was replied that this difference in conditions was "for those who make, not for those who interpret, the laws." And considering the expressions in the other cases which, it was said, went rather to the expediency of the laws than to their validity, yet, it was further said, the expressions had their value because the "obvious aim of the reasoning that prevailed was to show that the subject-matter of these enactments fell within the legitimate sphere of legislative power, and that, so far as the laws and Constitution of the United States was concerned, the legislation in question deprived no person of his property without due process of law."

The cases need no explanatory or fortifying comment. **They demonstrate that a business, by circumstances and its nature, may rise from private to be of public concern and be subject, in consequence, to governmental regulation.** And they demonstrate, to apply the language of Judge Andrews in the Budd case (117 N. Y. 1, 27), that the attempts made to place the right of public regulation in the cases in which it has been exerted, and of which we have given examples, upon the ground of special privilege conferred by the public on those affected, cannot be supported. "The underlying principle is that business of certain kinds holds such a peculiar relation to the public interest that there is superinduced upon it the right of public regulation." Is the business of insurance within the principle? It would be a bold thing to say that the principle is fixed, inelastic, in the precedents of the past and cannot be applied though modern economic conditions may make necessary or beneficial its application. In other words, to say that government possessed at one time a greater power to recognise the public interest in a business and its regulation to promote the

general welfare than the government possesses to-day. We proceed then to consider whether the business of insurance is within the principle.

A contract for fire insurance is one for indemnity against loss and is personal. The admission, however, does not take us far in the solution of the question presented. Its personal character certainly does not itself preclude regulation, for there are many examples of governmental regulation of personal contracts, and in the statutes of every State in the Union superintendence and control over the business of insurance are exercised, varying in details and extent. We need not particularize in detail. We need only say that there was quite early (in Massachusetts 1837, New York 1853) state provision for what is known as the unearned premium fund or reserve; then came the limitation of dividends, the publishing of accounts, valued policies, standards of policies, prescribing investment, requiring deposits in money or bonds, confining the business to corporations, preventing discrimination in rates, limitation of risks and other regulatons equally restrictive. In other words, the State has stepped iu and imposed conditions upon the companies, restraining the absolute liberty which businesses strictly private are permitted to exercise.

Those regulations exhibit it to be the conception of the law-making bodies of the country without exception that the business of insurance so far affects the public welfare as to invoke and require governmental regulation. A conception so general cannot be without cause. The universal sense of a people cannot be accidental; its persistence saves it from the charge of unconsidered impulse, and its estimate of insurance certainly has substantial basis. Accidental fires are inevitable and the extent of loss very great. The effect of insurance—indeed, it has been said to be its fundamental object—is to distribute the loss over as wide an area as possible. In other words, the loss is spread over the country, the disaster to an individual is shared by many, the disaster to a community shared by other communities; great catastrophes are thereby lessened, and, it may be, repaired. In assimilation of insurance to a tax, the companies have been said to be the mere machinery by which the inevitable losses by fire are distributed so as to fall as lightly as possible on the public at large, the body of the insured, not the companies, paying the tax. Their efficiency, therefore, and solvency are of great concern. The other objects, direct and indirect, of insurance we need not mention.

Indeed, it may be enough to say, without stating other effects of insurance, that a large part of the country's wealth, subject to uncertainty of loss through fire, is protected by insurance. This demonstrates the interest of the public in it and we need not dispute with the economists that this is the result of the "substitution of certain for uncertain loss" or the diffusion of positive loss over a large group of persons, as we have already said to be certainly one of its effects. We can see, therefore, how it has come to be considered as a matter of public concern to regulate it, and governmental insurance has its advocates and even examples. **Contracts of insurance, therefore, have greater public consequence than contracts between individuals to do or not to do a particular thing whose effect stops with the individuals. We may say in passing that, when the effect goes beyond that, there are many examples of regulation.** Holden v. Hardy, 169 U. S. 366; Griffith v. Connecticut, 218 U. S. 563; Muller v. Oregon, 208 U. S. 412; Mutual Loan Co. v. Martel, 222 U. S. 225; Schmidinger v. Chicago, 226 U. S. 578; Chicago, Burlington & Quincy R. R. Co. v. Maguire, 219 U. S. 549; Noble State Bank v. Haskell et al., 219 U. S. 104.

Complainant feels the necessity of accounting for the regulatory state legislation and refers it to the exertion of the police power, but, while expressing the power in the broad language of the cases, seeks to restrict its application. Counsel states that this power may be exerted to "pass laws whose purpose is the health, safety, morals and the general welfare of the people." The admission is very comprehensive. What makes for the general welfare is necessarily in the first instance a matter of legislative judgment and a judicial review of such judgment is limited. "The scope of judicial inquiry in deciding the question of **power** is not to be confused with the scope of legislative consideration in dealing with the matter of **policy.** Whether the enactment is wise or unwise, whether it is based on sound economic theory, whether it is the best means to achieve the desired result, whether, in short, the legislative discretion within its prescribed limits should be exercised in a particular manner, are matters for the judgment of the legislature, and the earnest conflict of serious opinion does not suffice to bring them within the range of judicial cognizance." Chicago, Burlington & Quincy Railroad Co. v. Maguire, 219 U. S. 540, 569.

The restrictions upon the legislative power which complainant urges we have discussed, or rather the considera-

tions which take, it is contended, the business of insurance outside of the sphere of the power. **To the contention that the business is private we have opposed the conception of the public interest. We have shown that the business of insurance has very definite characteristics, with a reach of influence and consequence beyond and different from that of the ordinary businesses of the commercial world, to pursue which a greater liberty may be asserted. The transactions of the latter are independent and individual, terminating in their effect with the instances. The contracts of insurance may be said to be interdependent. They cannot be regarded singly, or isolatedly, and the effect of their relation is to create a fund of assurance and credit, the companies becoming the depositories of the money of the insured, possessing great power thereby and charged with great responsibility. How necessary their solvency is, is manifest. On the other hand, to the insured, insurance is an asset, a basis of credit. It is practically a necessity to business activity and enterprise. It is, therefore, essentially different from ordinary commercial transactions, and, as we have seen, according to the sense of the world from the earliest times—certainly the sense of the modern world—is of the greatest public concern. It is, therefore, within the principle we have announced.**

But it is said that the reasoning of the opinion has the broad reach of subjecting to regulation every act of human endeavor and the price of every article of human use. We might, without much concern, leave our discussion to take care of itself against such misunderstanding or deductions. The principle we apply is definite and old and has, as we have pointed out, illustrating examples. And both by the expression of the principle and the citation of the examples we have tried to confine our decision to the regulation of the business of insurance, it having become "clothed with a public interest," and, therefore, subject "to be controlled by the public for the common good."

If there may be controversy as to the business having such character, there can be no controversy as to what follows from such character if it be established. It is idle, therefore, to debate whether the liberty of contract guaranteed by the Constitution of the United States is more intimately involved in price regulation than in the other forms of regulation as to the validity of which there is no dispute. The order of their enactment certainly cannot be considered an element in their legality. It

would be very rudimentary to say that measures of government are determined by circumstances, by the presence or imminence of conditions, and of the legislative judgment of the means or the policy of removing or preventing them. The power to regulate interstate commerce existed for a century before the Interstate Commerce Act was passed, and the Commission constituted by it was not given authority to fix rates until some years afterwards. Of the agencies which those measures were enacted to regulate at the time of the creation of the power, there was no prophecy or conception. Nor was regulation immediate upon their existence. It was exerted only when the size, number and influence of those agencies had so increased and developed as to seem to make it imperative. Other illustrations readily occur which repel the intimation that the inactivity of a power, however prolonged, militates against its legality when it is exercised. United States v. Delaware & Hudson Co., 213 U. S. 366. It is oftener the existence of necessity rather than the prescience of it which dictates legislation. And so with the regulations of the business of insurance. They have proceeded step by step, differing in different jurisdictions. If we are brought to a comparison of them in relation to the power of government, how can it be said that fixing the price of insurance is beyond that power and the other instances of regulation are not? How can it be said that the right to engage in the business is a natural one when it can be denied to individuals and permitted to corporations? How can it be said to have the privilege of a private business when its dividends are restricted, its investments controlled, the form and extent of its contracts prescribed, discriminations in its rates denied and a limitation on its risks imposed? Are not such regulations restraints upon the exercise of the personal right—asserted to be fundamental—of dealing with property freely or engaging in what contracts one may choose and with whom and upon what terms one may choose?

We may venture to observe that the price of insurance is not fixed over the counters of the companies by what Adam Smith calls the higgling of the market, but formed in the councils of the underwriters, promulgated in schedules of practically controlling constancy which the applicant for insurance is powerless to oppose and which, therefore, has led to the assertion that the business of insurance is of monopolistic character and that "it is illusory to speak of a liberty of contract." It is in the alternative presented, of accepting the rates of the com-

panies or refraining from insurance, business necessity impelling if not compelling it, that we may discover the inducement of the Kansas statute, and the problem presented is whether the legislature could regard it of as much moment to the public that they who seek insurance should no more be constrained by arbitrary terms than they who seek transportation by railroads, steam or street, or by coaches whose itinerary may be only a few city blocks, or who seek the use of grain elevators, or be secured in a night's accommodation at a wayside inn, or in the weight of a five-cent loaf of bread. We do not say this to belittle such rights or to exaggerate the effect of insurance, but to exhibit the principle which exists in all and brings all under the same governmental power.

We have summarized the provisions of the Kansas statute, and it will be observed from them that they attempt to systematize the control of insurance. The statute seeks to secure rates which shall be reasonable both to the insurer and the insured, and as a means to this end it prescribes equality of charges, forbids initial discrimination or subsequently by the refund of a portion of the rates, or the extension to the insured of any privilege; to this end it requires publicity in the basic schedules and of all of the conditions which affect the rates or the value of the insurance to the insured, and also adherence to the rates as published. Whether the requirements are necessary to the purpose, or—to confine ourselves to that which is under review—whether rate regulation is necessary to the purpose, is a matter for legislative judgment, not judicial. Our function is only to determine the existence of power.

The bill attacks the statute of Kansas as discriminating against complainant because the statute excludes from its provisions farmers' mutual insurance companies, organized and doing business under the laws of the State and insuring only farm property. The charge is not discussed in the elaborate brief of counsel, nor does it seem to have been pressed in the lower court. It is, however, covered by the assignments of error.

The provision of the statute is, "That nothing in this act shall affect farmers' mutual insurance companies, organized and doing business under the laws of this State and insuring only farm property." The distinction is, therefore, between cooperative insurance companies insuring a special kind of property and all other insurance companies. It is only with that distinction that we are now concerned. There are special provisions in the statutes of Kansas for the organization of cooperative companies and if the statute under review discriminates between them the German Alliance Company cannot avail itself of the discrimination. A citation of cases is not necessary, nor for the general principle that a discrimination is valid if not arbitrary, and arbitrary in the legislative sense, that is, outside of that wide discretion which a legislature may exercise. A legislative classification may rest on narrow distinctions. Legislation is addressed to evils as they may appear, and even degrees of evil may determine its exercise. Ozan Lumber Co. v. Union County National Bank, 207 U. S. 251. There are certainly differences between stock companies, such as complainant is, and the mutual companies described in the bill, and a recognition of the differences we cannot say is outside of the constitutional power of the legislature. Orient Insurance Co. v. Daggs, 172 U. S. 557.

Decree affirmed.

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